

**TARZANA TREATMENT CENTERS, INC.**

**FINANCIAL STATEMENTS  
AND SINGLE AUDIT REPORTS AND SCHEDULES**

**FOR THE YEAR ENDED JUNE 30, 2012**

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INDEPENDENT AUDITORS' REPORT

To the Audit Committee  
**TARZANA TREATMENT CENTERS, INC.**  
Tarzana, California

We have audited the accompanying statement of financial position of Tarzana Treatment Centers, Inc. (the "Organization") as of June 30, 2012, and the related statements of activities, functional expenses, and cash flows for the year then ended. These financial statements are the responsibility of the Organization's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America (the "U.S.") and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the U.S. 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 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 audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Organization as of June 30, 2012, and the changes in its net assets and its cash flows for the year then ended in conformity with accounting principles generally accepted in the U.S.

In accordance with *Government Auditing Standards*, we have also issued our report dated January 24, 2013, on our consideration of the Organization's internal control over financial reporting and on 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 audit.



INDEPENDENT AUDITORS' REPORT (Continued)

Our audit was conducted for the purpose of forming an opinion on the financial statements. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Nonprofit Organizations*, and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the U.S. In our opinion, the schedule of expenditures of federal awards is fairly stated in all material respects in relation to the financial statements as a whole.

*RBZ, LLP*

January 24, 2013

**TARZANA TREATMENT CENTERS, INC.**

**STATEMENT OF FINANCIAL POSITION**

**JUNE 30, 2012**

**ASSETS**

Current Assets	
Cash and cash equivalents	\$ 5,588,230
U.S. Treasury Bills	7,023,203
Accounts receivable, net	6,518,959
Prepaid expenses	449,652
Other current assets	<u>43,813</u>
	<u>19,623,857</u>
Property and equipment, net	<u>6,429,605</u>
Long-Term Assets	
Deferred compensation investments	2,289,146
Other	<u>485,962</u>
	<u>2,775,108</u>
	<u>\$ 28,828,570</u>

**LIABILITIES AND UNRESTRICTED NET ASSETS**

Current Liabilities	
Accounts payable	\$ 2,519,876
Accrued expenses	2,657,934
Deferred revenue	69,982
Current portion of debt	<u>75,000</u>
	<u>5,322,792</u>
Long-Term Liabilities	
Long-term debt, net of current portion	1,180,000
Deferred compensation liability	<u>2,320,870</u>
	<u>3,500,870</u>
Total Liabilities	<u>8,823,662</u>
Commitments and Contingencies (Notes 2, 7, 10 and 11)	
Net Assets	
Unrestricted	
General	14,830,303
Property and equipment, net	<u>5,174,605</u>
Total Net Assets	<u>20,004,908</u>
	<u>\$ 28,828,570</u>

See accompanying notes to financial statements.

**TARZANA TREATMENT CENTERS, INC.**

**STATEMENT OF ACTIVITIES**

**FOR THE YEAR ENDED JUNE 30, 2012**

Revenue	
Grants and contracts	\$ 18,344,004
Federal funding	15,511,979
Private insurance and private pay	5,568,499
Healthy Way L.A. clinic revenue	2,977,129
Other program income	1,086,342
In-kind goods and services	129,661
Contributions	52,952
Interest and dividends	<u>5,295</u>
	<u>43,675,861</u>
Functional Expenses	
Program services	31,476,395
General and administrative	<u>13,615,501</u>
	<u>45,091,896</u>
Changes in Unrestricted Net Assets	(1,416,035)
Unrestricted Net Assets, beginning of year	<u>21,420,943</u>
Unrestricted Net Assets, end of year	<u>\$ 20,004,908</u>

See accompanying notes to financial statements.

**TARZANA TREATMENT CENTERS, INC.**

**STATEMENT OF FUNCTIONAL EXPENSES**

**FOR THE YEAR ENDED JUNE 30, 2012**

	Program		Program Services	General and Administrative	Total Expenses
	Inpatient Services	Non-inpatient Services			
Personnel Costs					
Wages and salaries					
Administrative	\$ -	\$ -	\$ -	\$ 3,856,461	\$ 3,856,461
Program directors	890,640	1,466,175	2,356,815	674,843	3,031,658
Counselors	3,013,671	4,961,113	7,974,784	0	7,974,784
Nurses	1,555,772	0	1,555,772	0	1,555,772
Clinical	1,253,106	2,062,867	3,315,973	0	3,315,973
Kitchen	372,159	0	372,159	0	372,159
Maintenance and janitorial	271,744	447,345	719,089	102,927	822,016
Total personnel	7,357,092	8,937,500	16,294,592	4,634,231	20,928,823
Payroll taxes and employee benefits					
Payroll taxes	522,718	860,500	1,383,218	393,391	1,776,609
Medical insurance	473,274	779,104	1,252,378	356,180	1,608,558
Retirement plan	57,865	95,257	153,122	43,548	196,670
Vacation accrual	32,848	54,075	86,923	24,721	111,644
Workers' compensation insurance	254,168	418,409	672,577	191,283	863,860
Total personnel and related benefits	8,697,965	11,144,845	19,842,810	5,643,354	25,486,164
Other Costs					
Auto mileage and travel costs	39,058	64,297	103,355	291,857	395,212
Computer supplies and maintenance	49,268	54,087	103,355	289,037	392,392
Consultants and home care nursing	1,129,333	997,285	2,126,618	516,385	2,643,003
Depreciation and amortization	-	-	-	832,422	832,422
Facility maintenance and costs	42,611	70,146	112,757	238,255	351,012
Food costs	1,184,194	-	1,184,194	-	1,184,194
Insurance	-	-	-	476,811	476,811
Interest, bank charges, payroll processing and merchant fees	-	-	-	201,993	201,993
Laboratory, medication, medical supplies and radiology	1,162,620	1,370,654	2,533,274	-	2,533,274
Marketing costs	-	-	-	486,345	486,345
Office supplies	-	-	-	275,883	275,883
Printing and duplicating	16,967	27,932	44,899	125,912	170,811
Professional fees	-	-	-	1,332,265	1,332,265
Program supplies and expenses	145,734	239,908	385,642	-	385,642
Property taxes and other taxes	-	-	-	283,025	283,025
Provision for contract allowances	-	-	-	152,463	152,463
Rent	1,177,307	2,735,577	3,912,884	560,071	4,472,955
Subcontract grants and allocations	-	688,380	688,380	-	688,380
Supplies	-	-	-	313,391	313,391
Telephone	-	-	-	287,229	287,229
Utilities and waste disposal	102,472	168,690	271,162	530,392	801,554
Volunteer costs	11,790	19,410	31,200	-	31,200
Other costs	82,225	53,640	135,865	778,411	914,276
Total Expenses	\$ 13,841,544	\$ 17,634,851	\$ 31,476,395	\$ 13,615,501	\$ 45,091,896

See accompanying notes to financial statements.

**TARZANA TREATMENT CENTERS, INC.**

**STATEMENT OF CASH FLOWS**

**FOR THE YEAR ENDED JUNE 30, 2012**

Cash Flows from Operating Activities	
Changes in net assets	\$ (1,416,035)
Adjustments to reconcile changes in net assets to net cash provided by operating activities	
Depreciation and amortization	832,422
Unrealized gain on U.S. Treasury Bills	(3,937)
(Increase) decrease in operating assets	
Accounts receivable, net	(511,952)
Prepaid expenses	(56,947)
Other current assets	(32,325)
Deferred compensation investments	416,934
Other assets	(34,830)
Increase (decrease) in operating liabilities	
Accounts payable	870,454
Accrued expenses	336,295
Deferred revenue	3,980
Deferred compensation	<u>(380,066)</u>
Net Cash Provided by Operating Activities	<u>23,993</u>
Cash Flows from Investing Activities	
Purchases of property and equipment	<u>(637,638)</u>
Net Cash Used in Investing Activities	<u>(637,638)</u>
Cash Flows from Financing Activities	
Principal payments on debt	<u>(70,000)</u>
Net Cash Used in Financing Activities	<u>(70,000)</u>
Net Decrease in Cash and Cash Equivalents	(683,645)
Cash and Cash Equivalents, beginning of year	<u>6,271,875</u>
Cash and Cash Equivalents, end of year	<u>\$ 5,588,230</u>

**SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION**

Cash Paid during the Year for Interest	<u>\$ 66,434</u>
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See accompanying notes to financial statements.

**TARZANA TREATMENT CENTERS, INC.**

**NOTES TO FINANCIAL STATEMENTS**

**FOR THE YEAR ENDED JUNE 30, 2012**

NOTE 1 - NATURE OF OPERATIONS

Nature of Activities

Tarzana Treatment Centers, Inc. (the "Organization") is a full-service behavioral healthcare organization that provides high quality, cost-effective substance abuse and mental health treatment to adults and youth. The Organization is a nonprofit, community-based organization that operates a psychiatric hospital, residential and outpatient alcohol and drug treatment centers, adolescent drug treatment centers and family medical clinics in locations throughout Southern California. The Organization has been accredited by the Joint Commission on Accreditation of Healthcare Organizations and all facilities are licensed and certified by the State of California and the County of Los Angeles. Since 1972, the Organization has been providing a comprehensive continuum of healthcare services including:

- Addiction treatment for alcohol and drugs
- Housing and sober living
- Mental health support
- Home care
- Education
- HIV education and treatment
- Community access and programs
- Youth services
- Family services
- Court-related services

Additionally, the Organization operates three primary medical care facilities that provide family medical care and other community services. A more detailed description of the Organization's services can be located at its website [www.tarzanatc.org](http://www.tarzanatc.org).

Funding

Primary support and revenue for the Organization are from federal, state and county funding, patient payments and insurance.

**TARZANA TREATMENT CENTERS, INC.**

**NOTES TO FINANCIAL STATEMENTS**

**FOR THE YEAR ENDED JUNE 30, 2012**

NOTE 2 - INCOME TAXES

The Organization is exempt from federal income taxes under Section 501(c)(3) of the Internal Revenue Code and applicable state law. The Organization is currently under audit by the IRS for the tax years 2008 through 2010. The focus of the audits concerns the Organization and its transactions with related parties.

Accordingly, the IRS is reviewing all related party transactions the Organization has entered into with certain members of senior management, board members and controlled entities (disqualified persons).

The accounting standard on accounting for uncertainty in income taxes addresses the determination of whether tax benefits claimed or expected to be claimed on a tax return should be recorded in the financial statements. Under that guidance, the Organization may recognize the tax benefit from a tax position only if it is "more likely than not" (greater than 50% likelihood) that the tax position will be sustained on examination by taxing authorities based on the technical merits of the position. The most significant tax positions as it relates to the Organization include the tax-exempt status of the Organization and the fair value of rent paid to entities controlled by related parties.

Management and the Organization's tax counsel have confidence that the exempt status of the Organization will be maintained upon completion of the examination and that there will be no material adverse financial consequences. Additionally, the Organization obtained independent market appraisals of all significant properties leased from related parties which supported the Organization's position that rents paid were at or below market value. Therefore, under the guidance provided in the preceding paragraph, the Organization has no uncertain material tax positions that are "more likely than not" not to be upheld and consequently, there are not any previously recognized tax benefits which are now identified or recorded as liabilities in fiscal year 2012 or any open years.

NOTE 3 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Accounting

The accompanying financial statements were prepared on the accrual basis of accounting.

Financial Statement Presentation

The Organization reports information regarding its financial position and activities according to three classes of net assets: unrestricted, temporarily restricted and permanently restricted. Typically, the Organization only has unrestricted sources of revenue.

**TARZANA TREATMENT CENTERS, INC.**

**NOTES TO FINANCIAL STATEMENTS**

**FOR THE YEAR ENDED JUNE 30, 2012**

NOTE 3 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Financial Statement Presentation (Continued)

*Unrestricted Net Assets* - Include service fees from government, insurance or patients as well as government grants that are not restricted by the donor or grantor as well as expenditures related to the general operations of the Organization.

*Temporarily Restricted Net Assets* - Include contributions that are temporarily restricted by the donor or grantor. The Organization has no temporarily restricted net assets.

*Permanently Restricted Net Assets* - Include contributions that have been restricted by the donor in perpetuity. The Organization has no permanently restricted net assets.

Use of Estimates

Management uses estimates and assumptions in preparing financial statements. Those estimates and assumptions affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities, and the reported revenues and expenses. Actual results could differ from these estimates.

Insurance Coverage

The Organization is exposed to risk of loss related to professional and general liability. Management believes that the levels of coverage carried are adequate so that no potential claim could negatively impact the Organization operations in future periods.

Concentrations of Credit Risk

The Organization has two major funding sources that comprise approximately 36% and 13% of its revenue during the year and 40% and 7% of its receivables, respectively, at June 30, 2012. Management anticipates this funding will continue at the present levels.

**TARZANA TREATMENT CENTERS, INC.**

**NOTES TO FINANCIAL STATEMENTS**

**FOR THE YEAR ENDED JUNE 30, 2012**

NOTE 3 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Impairment of Long-Lived Assets

Management reviews each asset or asset group for impairment whenever events or circumstances indicate that the carrying value of an asset or asset group may not be recoverable, but at least annually. The review of recoverability is based on management's estimate of the undiscounted future cash flows that are expected to result from the asset's use and eventual disposition. These cash flows consider factors such as expected future operating income, trends and prospects, as well as the effects of competition and other factors. If an impairment event exists due to the projected inability to recover the carrying value of an asset or asset group, an impairment loss is recognized to the extent that the carrying value exceeds estimated fair value. No impairment provision was recorded by the Organization during the year.

Cash and Cash Equivalents

The Organization considers all highly liquid financial instruments purchased with an original maturity of three months or less to be cash equivalents.

Accounts Receivable

Accounts receivable are unsecured and the Organization is at risk to the extent that such amounts become uncollectible. Management has provided an allowance for uncollectible accounts in the amount of \$704,207.

Other Long-Term Assets

Included in long-term assets are the following:

Certificate reserve	\$ 185,753
Deposits	175,627
Debt issue costs, net	56,808
Incentive gift cards	35,040
Insurance premium reserves	<u>32,734</u>
	<u>\$ 485,962</u>

*Certificate reserve* - represents the maximum annual payment of the Organization's long-term debt, which is required to be maintained in a reserve account in accordance with the debt agreement (see Note 6).

**TARZANA TREATMENT CENTERS, INC.**

**NOTES TO FINANCIAL STATEMENTS**

**FOR THE YEAR ENDED JUNE 30, 2012**

NOTE 3 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Other Long-Term Assets (Continued)

*Debt issue costs* - represents the direct costs of structuring the Organization's long-term debt (see Note 6). The capitalized amount is being amortized over the term of the debt. At June 30, 2012, there was \$67,577 of accumulated amortization of which \$4,975 was amortized in the fiscal year.

*Incentive gift cards* - represents purchased retail gift cards for use in providing incentives to clients or tokens of appreciation to employees.

*Insurance premium reserves* - represents a reserve for insurance premiums paid in accordance with the bond payment terms (see Note 6).

Property and Equipment

Purchases of fixed assets are recorded at cost. Donated items are recorded at fair value when received. Depreciation and amortization on both purchased and donated items are recorded using the straight line method over the shorter of the estimated useful life of the related asset or the term of the lease for leasehold improvements as follows:

Buildings	39 years
Hospital and house equipment	7 years
Leasehold improvements	15 years
Computer and office equipment	5 years
Computer software	3 years
Transportation equipment	5 years

Normal repairs and maintenance are expensed as incurred, whereas significant charges that materially increase values or extend useful lives are capitalized and depreciated over the estimated useful lives of the related assets.

Deferred Compensation Investments

All long-term investments are assets of the deferred compensation plan (see Note 7). The investments are held in brokerage accounts and are stated at fair value. Unrealized gains and losses are recognized aggregately. Realized gains and losses are recognized immediately using the specific identification method.

**TARZANA TREATMENT CENTERS, INC.**

**NOTES TO FINANCIAL STATEMENTS**

**FOR THE YEAR ENDED JUNE 30, 2012**

NOTE 3 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Deferred Compensation Investments (Continued)

The Organization must report its investments at fair value among three categories of price inputs available. These categories of inputs are quoted prices in active markets for identical assets (Level 1); significant other observable inputs (Level 2); and significant unobservable inputs (Level 3). At year end, all investments were considered to be Level 1.

Deferred Revenue

Deferred revenue represents money received from contracts/grants prior to being earned. Grant and contract income is recognized in subsequent years as services are rendered.

Deferred Compensation Investments and Liability

The Organization has established qualified and non-qualified plans for the benefit of its employees.

Government Grants

The Organization receives a portion of its public support based on reimbursable costs as defined by the respective grants. Reimbursements recorded under these grants are subject to audit by the granting agency.

Cost Allocation

The Organization allocates its expenses on a functional basis among its various programs and support services. Expenses that can be identified with a specific program or support services are allocated directly according to functional expense classifications. Other expenses common to several functions are allocated using reasonable statistical bases.

Subsequent Events

The Organization has evaluated events subsequent to June 30, 2012 to assess the need for potential recognition or disclosure in the financial statements. Such events were evaluated through January 24, 2013, the date the financial statements were available to be issued. Subsequent events requiring disclosure are included in Notes 7 and 11.

**TARZANA TREATMENT CENTERS, INC.**

**NOTES TO FINANCIAL STATEMENTS**

**FOR THE YEAR ENDED JUNE 30, 2012**

NOTE 4 - ACCOUNTS RECEIVABLE

Accounts receivable consist of the following:

Los Angeles County	\$ 4,666,223
U.S. Government	806,247
Private insurance	805,629
Other agencies	483,072
State of California	319,245
City of Los Angeles	<u>142,750</u>
	7,223,166
Allowance for doubtful accounts	<u>(704,207)</u>
	<u>\$ 6,518,959</u>

NOTE 5 - PROPERTY AND EQUIPMENT

Property and equipment consist of the following:

Land	\$ 897,305
Buildings	1,120,933
Hospital and house equipment	934,554
Leasehold improvements	10,825,435
Computer and office equipment	2,227,918
Computer software	916,728
Transportation equipment	<u>489,603</u>
	17,412,476
Accumulated depreciation and amortization	<u>(10,982,871)</u>
	<u>\$ 6,429,605</u>

**TARZANA TREATMENT CENTERS, INC.**

**NOTES TO FINANCIAL STATEMENTS**

**FOR THE YEAR ENDED JUNE 30, 2012**

NOTE 6 - DEBT

On December 1, 1998, the ABAG Finance Authority for Nonprofit Organizations ("ABAG"), a California joint powers agency, issued Insured Revenue Certificates of Participation (essentially bonds and hereinafter referred to as the "Bonds") in the amount of \$1,950,000 on behalf of the Organization to finance the purchase of a facility in Long Beach, California. The Bonds are insured by Cal-Mortgage and are publicly-traded. US Bank is the trustee for the Bonds and the Organization makes monthly payments of approximately \$12,300, including bond insurance, through December 2023, with interest at 5.75%, into accounts established for the Bonds' repayment. The Organization has signed a deed of trust to US Bank for the benefit of ABAG granting a first lien on the property. The debt agreements contain several covenants with which noncompliance has no material implication.

The following is a schedule of future minimum principal payments required under the Bond as of June 30, 2012:

<u>Year Ending June 30.</u>	
2013	\$ 75,000
2014	80,000
2015	85,000
2016	90,000
2017	95,000
Thereafter	<u>830,000</u>
	<u>\$ 1,255,000</u>

NOTE 7 - DEFERRED COMPENSATION

In 1999, the Organization established a non-qualified deferred compensation plan structured as a Discounted Employee Security Option Program (DESOP) for the benefit of certain management employees. The Organization's board makes annual grants of options in publicly-traded mutual funds which the Organization has purchased to fund the DESOP, and the account balance fluctuates with the investment returns on those funds. The DESOP assets are held in a separate trust, but are subject to the claims of the Organization's creditors in the event that the Organization becomes insolvent. Consequently, the trust qualifies as a grantor trust for income tax purposes. Charges to deferred compensation expense are included within salaries in the accompanying statement of functional expenses. The difference of \$31,724 between the asset of \$2,289,146 and the liability of \$2,320,870 is due to amounts not yet transferred to the DESOP trust accounts.

**TARZANA TREATMENT CENTERS, INC.**

**NOTES TO FINANCIAL STATEMENTS**

**FOR THE YEAR ENDED JUNE 30, 2012**

NOTE 7 - DEFERRED COMPENSATION (Continued)

Activity in the DESOP consists of the following:

	<u>Shares</u>	<u>Fair Value</u>
Outstanding as of July 1, 2011	1,462,560	\$ 2,706,080
Granted	4,377	66,613
Exercised	(50,278)	(319,736)
Change in fair value	<u>-</u>	<u>(163,811)</u>
Outstanding as of June 30, 2012	<u>1,416,659</u>	<u>\$ 2,289,146</u>

As of June 30, 2012, the options expired at various period through April 2017. Options granted before 2008 vest over a 10-year period and options granted in 2008 or later vest over a 4-year period. In December 2012, the board of directors voted to accelerate the vesting of all options granted to that point. Members of management exercised options with a fair value of \$2,508,931 as of January 24, 2013.

The Organization has established a defined contribution plan under Section 401(k) of the Internal Revenue Code ("IRC"), covering certain employees aged 18 years and older who have completed six months of service. The terms of the plan provide that employees, once eligible, may participate in the plan by making contributions up to the maximum allowed under the IRC. The Organization makes elective matching contributions of 50% of the elective deferral up to 2.5% of eligible earnings. Contributions were \$196,670 for the year.

NOTE 8 - WORKERS' COMPENSATION LIABILITY

The Organization is partially self-insured for workers' compensation. The program is supplemented with commercial excess insurance with third-party insurance carriers for total claims above the Organization's self-insurance retention of \$500,000. The Organization has retained an outside administrator to monitor, process and administer its claims. The administrator also establishes an accrual for future payments on known claims. Historically, the Organization has had a very low frequency of incurred but not reported claims.

**TARZANA TREATMENT CENTERS, INC.**

**NOTES TO FINANCIAL STATEMENTS**

**FOR THE YEAR ENDED JUNE 30, 2012**

NOTE 8 - WORKERS' COMPENSATION LIABILITY (Continued)

Changes in the balance of claim liabilities for the year ended June 30, 2012, are as follows:

<u>Balance</u> <u>July 1, 2011</u>	<u>Current Year</u> <u>Claims and</u> <u>Change in</u> <u>Estimates</u>	<u>Claims/</u> <u>Payments</u>	<u>Balance</u> <u>June 30, 2012</u>
<u>\$ 500,000</u>	<u>\$ 760,449</u>	<u>\$ (759,462)</u>	<u>\$ 500,987</u>

The liability has been included in accrued expenses in the accompanying financial statements.

California's private insurance program requires that self-insured employers post collateral to cover estimated future claim liabilities. The Organization participates in California's "Alternative Security Program," part of the Self-Insurer's Security Fund. Membership in this program allows the Organization to fulfill the requirement through its membership and investment in the program.

NOTE 9 - IN-KIND GOODS AND SERVICES

During the year ended June 30, 2012, the Organization received donated non-cash contributions of clothing, furniture, food, and appliances valued at \$98,461. Also, during the same period, the Organization has valued donated professional services at \$31,200

**TARZANA TREATMENT CENTERS, INC.**

**NOTES TO FINANCIAL STATEMENTS**

**FOR THE YEAR ENDED JUNE 30, 2012**

NOTE 10 - RELATED PARTY TRANSACTIONS

In the year ended June 30, 2012, the Organization leased six properties from entities controlled by certain board members. These transactions are summarized as follows:

<u>Property</u>	<u>Lease Termination</u>	<u>Fiscal 2012</u>	
		<u>Rent Paid</u>	<u>Property Taxes Paid</u>
44447 North 10th St.	Dec. 2017	\$ 707,021	\$ 41,368
18700 Oxnard St.	June, 2028	276,556	21,852
7101 Baird St.	June, 2028	269,174	14,410
8330 Reseda Blvd.	July, 2028	241,993	41,328
907 West Lancaster Blvd.	March, 2018	110,991	8,980
38744 Cortina Way	Month-to-month	<u>36,000</u>	<u>-</u>
		<u>\$ 1,641,735</u>	<u>\$ 127,938</u>

In addition, the Organization leases its main offices from partners including a 10% ownership interest held by a current officer. The total amount paid under this lease in fiscal 2012 was \$1,565,327.

The Organization has had valuations performed on all of the significant properties by a third-party appraiser. The Organization believes the appraisals support the Organization's position it is paying fair rental value (or less) for all properties.

NOTE 11 - COMMITMENTS

The Organization leases 29 facilities (including the leases discussed in Note 10), all of which are accounted for as operating leases.

**TARZANA TREATMENT CENTERS, INC.**

**NOTES TO FINANCIAL STATEMENTS**

**FOR THE YEAR ENDED JUNE 30, 2012**

NOTE 11 - COMMITMENTS (Continued)

The Organization recognized rental expense of \$4,472,955 for the year ended June 30, 2012. The following is a schedule of future minimum rental payments required under the above operating leases as of June 30, 2012:

2013	\$ 4,092,446
2014	4,168,296
2015	4,246,964
2016	4,219,024
2017	4,246,339
Thereafter	<u>22,828,208</u>
	<u>\$ 43,801,277</u>

In August 2012 the Organization entered into a five-year lease of computer equipment with monthly payment amounts of \$11,417. This lease will be treated as a capital lease in the subsequent year.

State Funding

Laws and regulations governing the Medicare and Medicaid programs are extremely complex and subject to interpretation. During the last few years, as a result of nationwide investigations by governmental agencies, various health care organizations have received requests for information and notices regarding alleged noncompliance with those laws and regulations, which, in some instances, have resulted in organizations entering into significant settlement agreements. Compliance with such laws and regulations may also be subject to future government review and interpretation, as well as regulatory action, which could include fines, penalties, exclusion from the Medicare and Medicaid programs, and revocation of federal or state tax-exempt status. Moreover, the Organization expects that the level of review and audit to which it and other health care providers are subject will increase.

Various state and federal agencies routinely initiate audits of healthcare providers, including the Organization. The Organization investigations are continually in various stages of discovery and relate to reimbursement, billing practices and other matters of the Organization. There can be no assurance that regulatory authorities will not challenge the Organization's compliance with these laws and regulations, and it is not possible to determine the impact, if any, such claims or penalties would have on the Organization. As a result, there is a possibility that recorded amounts will change by a material amount in the near term. To foster compliance with applicable laws and regulations, the Organization maintains a compliance program designed to detect and correct potential violations of laws and regulations related to its programs.

**TARZANA TREATMENT CENTERS, INC.**

**NOTES TO FINANCIAL STATEMENTS**

**FOR THE YEAR ENDED JUNE 30, 2012**

NOTE 12 - CONTINGENCIES

Litigation

The Organization operates its mission in an environment that is subject to professional and general liability risks. Whereas there are no asserted claims at this time, management contends it is adequately insured so that no potential claim could create a significant adverse financial impact.

**TARZANA TREATMENT CENTERS, INC.**  
**SINGLE AUDIT REPORTS AND SCHEDULES**  
**FOR THE YEAR ENDED JUNE 30, 2012**

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

To the Audit Committee  
**TARZANA TREATMENT CENTERS, INC.**  
Tarzana, California

We have audited the financial statements of Tarzana Treatment Centers, Inc. as of and for the year ended June 30, 2012, and have issued our report thereon dated January 24, 2013. We conducted our audit in accordance with auditing standards generally accepted in the United States of America (the "U.S.") and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the U.S.

Internal Control Over Financial Reporting

Management of Tarzana Treatment Centers, Inc. is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered Tarzana Treatment Centers, Inc.'s internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Tarzana Treatment Centers, Inc.'s internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of Tarzana Treatment Centers, Inc.'s internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses and therefore, there can be no assurance that all deficiencies, significant deficiencies, or material weaknesses have been identified. However, as described in the accompanying schedule of findings and questioned costs, we identified certain deficiencies in internal control over financial reporting that we consider to be material weaknesses and other deficiencies that we consider to be significant deficiencies.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected, on a timely basis. We consider the following deficiencies described in the accompanying schedule of findings and questioned costs to be material weaknesses: Findings 2012-1 and 2012-2.

A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the following deficiencies described in the accompanying schedule of findings and questioned costs to be significant deficiencies: Findings 2012-3, 2012-4, 2012-5 and 2012-6.



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

Compliance and Other Matters

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

Corrective Action Plan

Tarzana Treatment Centers, Inc.'s response to the findings identified in our audit is described in the accompanying corrective action plan. We did not audit Tarzana Treatment Centers, Inc.'s response and, accordingly, we express no opinion on it.

Summary

This report is intended solely for the information and use of management, the board of directors, the audit committee, 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.

RBZ, LLP

January 24, 2013

INDEPENDENT AUDITORS' REPORT ON COMPLIANCE WITH REQUIREMENTS  
THAT COULD HAVE A DIRECT AND MATERIAL EFFECT  
ON EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE  
IN ACCORDANCE WITH OMB CIRCULAR A-133

To the Audit Committee  
**TARZANA TREATMENT CENTERS, INC.**  
Tarzana, California

Compliance

We have audited Tarzana Treatment Centers, Inc.'s compliance with the types of compliance requirements described in the U.S. Office of Management and Budget ("OMB") Circular A-133 Compliance Supplement that could have a direct and material effect on each of Tarzana Treatment Centers, Inc.'s major federal programs for the year ended June 30, 2012. Tarzana Treatment Centers, Inc.'s major federal programs 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 is the responsibility of Tarzana Treatment Centers, Inc.'s management. Our responsibility is to express an opinion on Tarzana Treatment Centers, Inc.'s compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the U.S.; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the U.S.; and OMB Circular A-133, *Audits of States, Local Governments, and Nonprofit Organizations*. Those standards and OMB Circular A-133 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 occurred. An audit includes examining, on a test basis, evidence about Tarzana Treatment Centers, Inc.'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 Tarzana Treatment Centers, Inc.'s compliance with those requirements.

In our opinion, Tarzana Treatment Centers, Inc. complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2012.



INDEPENDENT AUDITORS' REPORT ON COMPLIANCE WITH REQUIREMENTS  
THAT COULD HAVE A DIRECT AND MATERIAL EFFECT  
ON EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE  
IN ACCORDANCE WITH OMB CIRCULAR A-133

Internal Control Over Compliance

Management of Tarzana Treatment Centers, Inc. is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered Tarzana Treatment Centers, Inc.'s internal control over compliance with the requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on the 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 Tarzana Treatment Centers, Inc.'s internal control over compliance.

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

Summary

This report is intended solely for the information and use of management, the board of directors, the audit committee, 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.

*RBZ, LLP*

January 24, 2013

TARZANA TREATMENT CENTERS, INC.

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

FOR THE YEAR ENDED JUNE 30, 2012

Federal Grantor/ Pass-through Grantor/ Program Title	Federal CFDA Number	Pass-through Entity Identifying Number	Federal Expenditures Non ARRA	Major Program	Funds Provided to Sub recipients	Match
<b>U.S. Department of Housing and Urban Development</b>						
<b>Housing Opportunities for Persons with AIDS:</b>						
Porchlight	14.241	CA0437B9D00103	\$ 271,992		\$ -	\$ -
End to Homeless & High Risk	14.241	CA0506B9000802	188,092		-	37,894
<b>U.S. Department of Veteran Affairs</b>						
Veterans Rehabilitation - Alcohol & Drug Dependence	64.019	VA262-P-0404	143,100		-	-
<b>U.S. Department of Health and Human Services</b>						
<b>Substance Abuse and Mental Health Services Projects:</b>						
- CDC Projects for Youth HIV Prevention for Young Men of Color	93.243	1U22PS000494-01	105,122		-	-
- SAMHSA Mental Health Service in Minority Community of Person - HIV	93.243	1U79SM057774-01	156,369		12,814	-
- SAMHSA Assertive Community Treatment	93.243	3U79SP016464-01	686,842		-	-
- SAMHSA Growing Miracles	93.243	5H79TI023743-02	327,294		-	30,206
- SAMHSA Tele Treatment	93.243	1H79TI023795-01	184,076		-	-
- SAMHSA Diamonds & Pearls	93.243	5H79SM057914-01	342,098		-	-
- Medical Assistance Program - Medicare	93.778		413,604		-	-
- CDC Shield	93.943	5U65PS002353-01	335,693	*	-	-
- O/P Early Intervention Services-HIV Diseases/HRSA Title III	93.918	1H76 HA00791-01	294,143		-	-
<b>Passed through the State of California:</b>						
- HIV Care Formula Grants ADAP/340B	93.917	ADAP/340B	193,167		-	-
<b>Passed through County of Los Angeles:</b>						
<b>U.S. Department. of Health and Human Services:</b>						
<b>Administration for Children/Families</b>						
- Temporary Assistance for Needy Families	93.558	PH0001323 A-G	1,231,335	*	-	-
- Temporary Assistance for Needy Families	93.558	PH0001935 A-C	2,091,899	*	115,791	-
<b>Centers for Medicare &amp; Medicaid Services:</b>						
- Medical Assistance Program	93.778	PH001854 A-F,H	316,572		-	-
<b>Health Resources &amp; Services Administration:</b>						
- HIV Emergency Relief Project Grants / Medical Transportation	93.914	PH001534	42,082	*	-	-
- HIV Emergency Relief Project Grants / Oral Health Care Services	93.914	PH001535	74,234	*	-	-
- HIV Emergency Relief Project Grants / Case Management	93.914	PH001536	99,511	*	-	-
- HIV Emergency Relief Project Grants / Benefits Specialty	93.914	PH001537	76,392	*	-	-
- HIV Emergency Relief Project Grants / Mental Health Psychiatric	93.914	PH001538	81,186	*	-	-
- HIV Emergency Relief Project Grants / Medical Outpatient	93.914	PH001542	91,156	*	-	-
- HIV Emergency Relief Project Grants / Medical Outpatient	93.914	H209018	230,105	*	-	-
- HIV Emergency Relief Project Grants / OAPP Mental Health	93.914	H210794	94,537	*	-	-
- HIV Emergency Relief Project Grants / NOCHAA Benefits Specialty	93.914	H210795	90,770	*	-	-
- HIV Emergency Relief Project Grants / PreRelease County Jail	93.914	H300127	97,769	*	-	-
- HIV Care Formula Grants / Medical Transportation	93.917	PH001534	99,720		-	-
- HIV Care Formula Grants / Oral Health Care Services	93.917	PH001535	8,871		-	-
- HIV Care Formula Grants / Case Management	93.917	PH001536	96,831		-	-
- HIV Care Formula Grants / Case Management home-based	93.917	H204608	424,751		-	-
- HIV Care Formula Grants / NOCHAA	93.917	H210795	374,114		244,993	-
- HIV Care Formula Grants / PreRelease County Prison	93.917	H300127	72,538		-	-
- HIV Care Formula Grants / Residential	93.917	H700982	328,412		-	-
- HIV Care Formula Grants / Detox	93.917	H700983	335,352		-	-
- HIV Care Formula Grants / Transitional Housing	93.917	H701004	88,324		-	-
<b>Centers for Disease Control &amp; Prevention:</b>						
- HIV Prevention Activities-NonGovernmental Organization Based						
- HE RR IDU	93.939	PH001047	120,804		-	-
- HE RR Women	93.939	PH001062	171,386		-	-
- HIV Prevention Project_Health Department Based	93.940	PH000817	66,173		-	-
- HIV Prevention Project_Health Department Based / Mobile Testing	93.940	PH000827	162,951		-	-
<b>Substance Abuse &amp; Mental Health Services:</b>						
- Block Grants for Prevention and Treatment of Substance Abuse	93.959	PH001349 A-C, L	1,265,958		-	-
- Block Grants for Prevention and Treatment of Substance Abuse	93.959	PH001710 A, C, E	2,757,249		-	-
- Block Grants for Prevention and Treatment of Substance Abuse	93.959	PH001995C	75,000		-	-
- Block Grants for Prevention and Treatment of Substance Abuse	93.959	PH002003A-B	269,313		-	-
- Block Grants for Prevention and Treatment of Substance Abuse	93.959	PH002050A	372,314		-	-
<b>Passed through City of Los Angeles:</b>						
Housing Opportunities for Persons with AIDS	14.241	120401 & 112192	478,472		-	-
Totals			\$ 15,827,673		\$ 373,598	\$ 68,100

\* Denotes a major program.

**TARZANA TREATMENT CENTERS, INC.**

**NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**

**FOR THE YEAR ENDED JUNE 30, 2012**

NOTE 1      GENERAL

The accompanying schedule of expenditures of federal awards presents the activity of all federal assistance programs of Tarzana Treatment Centers, Inc.

NOTE 2      BASIS OF PRESENTATION

The accompanying schedule of expenditures of federal awards is presented using the accrual basis of accounting, which is described in Note 3 of the Notes to the Financial Statements of Tarzana Treatment Centers, Inc. as of and for the year ended June 30, 2012.

**TARZANA TREATMENT CENTERS, INC.**

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS**

**FOR THE YEAR ENDED JUNE 30, 2012**

- A -

SUMMARY OF AUDITORS' RESULTS

1. An unqualified opinion was issued on the financial statement of Tarzana Treatment Centers, Inc.
2. The audit of the financial statements disclosed two material weaknesses in internal control over financial reporting; four significant deficiencies that are not considered to be material weaknesses were reported.
3. The audit of the financial statements disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*.
4. The audit of compliance with requirements applicable to each major program disclosed no material weaknesses in internal control over compliance with requirements applicable to major programs; no significant deficiencies that are not considered to be material weaknesses were reported.
5. An unqualified opinion was issued on compliance with requirements applicable to major programs.
6. The audit disclosed no findings that are required to be reported under OMB Circular A-133 §510(a).
7. The major programs are identified as follows:

<u>Program Title</u>	<u>Federal CFDA Number</u>	<u>Expenditures of Federal Awards</u>
U.S. Department of Health and Human Services Temporary Assistance for Needy Families	93.558	\$ 3,323,234
U.S. Department of Health and Human Services HIV Emergency Relief Project Grants	93.914	977,743
U.S. Department of Health and Human Services Epidemiologic Research Studies of Acquired Immunodeficiency Syndrome (AIDS) and Human Immunodeficiency Virus (HIV) Infection in Selected Population Groups	93.943	<u>335,693</u>
Total Major Programs		<u>\$ 4,636,670</u>

8. The dollar threshold used to distinguish between Type A and Type B programs was \$474,830, as described in OMB Circular A-133 §520(b).
9. The auditee qualified as a low-risk auditee under OMB Circular A-133 §530.

**TARZANA TREATMENT CENTERS, INC.**

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS**

**FOR THE YEAR ENDED JUNE 30, 2012**

- B - FINDINGS AND QUESTIONED COSTS - FINANCIAL STATEMENTS AUDIT

Material Weaknesses in Internal Control

Finding 2012-1 – Incomplete Financial Statement Disclosure

Tarzana Treatment Centers, Inc.'s prior financial statement disclosures did not provide sufficient detail on its Discounted Employee Security Option Plan; as a result the disclosures did not conform with Conduit Debt Obligor reporting requirements required by accounting principles generally accepted in the U.S.

Finding 2012-2 – Estimates

Tarzana Treatment Centers, Inc. lacks a formal process for developing key estimates, including its obligation for workers' compensation payouts and the allowance for doubtful accounts.

Significant Deficiencies in Internal Control

Finding 2012-3 – Voided Check Posting

Transactions can be posted to the cash general ledger subsequent to the completion of month-end closing procedures. Specifically, when checks are voided, the adjustment to the cash account is posted to the period the check was issued, rather than when voided.

Finding 2012-4 – Invoice Tracking

Tarzana Treatment Centers, Inc. has numerous funding sources that require billing in different formats. Currently, the accounting department applies payments to outstanding balances by customer, without tracking specifically against funding period or invoice. For Department of Mental Health and Healthy Way LA, in particular, this makes it difficult to track the aging and collectability of outstanding balances. We recommend Tarzana Treatment Centers, Inc. develops a method for applying collections to the appropriate outstanding invoice and following up on unpaid balances.

Finding 2012-5 – Spreadsheet Controls and Review

Tarzana Treatment Centers, Inc. relies on formula-based excel spreadsheets to perform many of its duties. These spreadsheets currently lack the appropriate security and levels of review required to ensure proper reporting. We recommend Tarzana Treatment Centers, Inc. establish a review and approval process that provides security over access to these files, locks formulas, and ensures changes to formulas are approved by management.

**TARZANA TREATMENT CENTERS, INC.**

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS**

**FOR THE YEAR ENDED JUNE 30, 2012**

Finding 2012-6 – Documentation of Contract Invoice Support

Certain invoices lacked immediately-available supporting documentation. Though supporting documentation was eventually shown to be adequate, it often had to be reconstructed by the relevant staff. We recommend Tarzana Treatment Centers, Inc. maintain up-to-date documentation for all of its files, amended or revised budgets, contract rates, or other specific items.

- C -

FINDINGS AND QUESTIONED COSTS - MAJOR FEDERAL PROGRAMS AUDIT

None

**TARZANA TREATMENT CENTERS, INC.**

**CORRECTIVE ACTION PLAN**

**FOR THE YEAR ENDED JUNE 30, 2012**

Tarzana Treatment Centers, Inc. respectfully submits the following corrective plan for the year ended June 30, 2012.

Name of the independent public accounting firm:

RBZ, LLP  
11766 Wilshire Boulevard, Ninth Floor  
Los Angeles, California 90025

Finding 2012-1 – Incomplete Financial Statement Disclosure

Management agrees with this finding and has revised its disclosures on both the Discounted Employee Security Option Plan, as well as Tarzana Treatment Centers, Inc.'s status as a Conduit Debt Obligor. Management will review the AICPA Accounting and Audit Guide for Health Care Entities and consider required disclosures as part of its year-end closing process.

Finding 2012-2 – Estimates

Management agrees with this finding and has prepared a more detailed analysis of the estimated obligation for the workers' compensation liability, which has been incorporated into the financial statements. The calculation of the allowance for doubtful accounts/contracts receivable has also been revised to include more detail, specifically as it relates to specific funding sources and contract requirements.

Finding 2012-3 – Voided Check Posting

Management agrees with this finding, and will change its procedures to password-protect accounting periods as soon as the bank reconciliations are completed.

Finding 2012-4 – Invoice Tracking

Management agrees with this finding. It has experienced challenges in this regard, and continue to work to improve the tracking. The methods of communicating data, and inaccessibility of receiving data from funding sources is a factor in some of the difficulties of this item. They agree to continue to work on improving the process of reconciling payments with our invoices.

Finding 2012-5 – Spreadsheet Controls and Review

Management agrees with this finding and will review its policies related to security and appropriate review of excel spreadsheets. Once determined and approved, formula locks and the levels of review will be implemented.

**TARZANA TREATMENT CENTERS, INC.**

**CORRECTIVE ACTION PLAN**

**FOR THE YEAR ENDED JUNE 30, 2012**

Finding 2012-6 – Documentation of Contract Invoice Support

Management agrees with this finding and will make every effort to maintain supporting documentation for all of its files, amended or revised budgets, and contracts rates.

**TARZANA TREATMENT CENTERS, INC.**

**SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS**

**FOR THE YEAR ENDED JUNE 30, 2012**

- A - FINDINGS AND QUESTIONED COSTS - FINANCIAL STATEMENT AUDIT,  
JUNE 30, 2011

None

- B - FINDINGS AND QUESTIONED COSTS - MAJOR FEDERAL PROGRAMS AUDIT,  
JUNE 30, 2011

None