COMMCARE CORPORATION

FINANCIAL STATEMENTS

JUNE 30, 2012

Postlethwaite & Netterville

A Professional Accounting Corporation

www.pncpa.com

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A Professional Accounting Corporation
Associated Offices in Principal Cities of the United States
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Independent Auditors' Report

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We have audited the accompanying consolidated balance sheets of CommCare Corporation (a nonprofit organization) and subsidiaries, as of June 30, 2012 and 2011, and the related consolidated statements of revenue and expenses and changes in net assets, and cash flows for the years then ended. These financial statements are the responsibility of CommCare Corporation's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of CommCare Corporation and subsidiaries as of June 30, 2012 and 2011, and the results of their operations, changes in net assets, and their cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States.

In accordance with *Government Auditing Standards*, we have also issued our report dated November 30, 2012, on our consideration of CommCare Corporation's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, grants, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Postlethwaite & Netterville

November 30, 2012
Metairie, Louisiana

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COMMCARE CORPORATION
CONSOLIDATED BALANCE SHEETS
AS OF JUNE 30, 2012 AND 2011

ASSETS	2012	2011
Current assets		
Cash and cash equivalents	$ 13,642,913	$ 20,495,725
Cash and cash equivalents, restricted	3,160,000	3,254,227
Total cash and cash equivalents	16,802,913	23,749,952
Accounts receivable, net	8,427,040	6,966,327
Notes receivable	92,156	325,120
Prepaid expenses and other current assets	1,260,489	1,445,332
Total current assets	26,582,598	32,486,731
Property and equipment, net	71,821,923	69,213,478
Other assets		
Cash and cash equivalents, restricted for capital acquisition	3,654,608	3,771,278
Intangible assets	6,788,707	6,457,989
Goodwill	2,937,500	-
Notes receivable, less current portion	-	80,585
Miscellaneous	777,660	813,077
Total other assets	14,158,475	11,122,929
TOTAL ASSETS	$ 112,562,996	$ 112,823,138
LIABILITIES		
Current liabilities		
Accounts payable and accrued expenses	$ 8,170,968	$ 6,839,150
Current portion of debt of long-term debt	3,405,000	3,240,000
Total current liabilities	11,575,968	10,079,150
Noncurrent liabilities		
Long-term debt, less current portion	53,530,314	56,955,157
Other liabilities	2,382,845	-
Total noncurrent liabilites	55,913,159	56,955,157
TOTAL LIABILITIES	67,489,127	67,034,307
UNRESTRICTED NET ASSETS		
Commcare	44,301,549	45,321,846
Noncontrolling interest in subsidiary	772,320	466,985
TOTAL NET ASSETS	45,073,869	45,788,831
TOTAL LIABILITIES AND NET ASSETS	$ 112,562,996	$ 112,823,138

The notes to the financial statements are an integral part of these statements.

COMMCARE CORPORATION
CONSOLIDATED STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS
FOR THE YEARS ENDED JUNE 30, 2012 AND 2011

	2012	2011
OPERATING REVENUES		
Patient service revenue	$ 73,284,733	$ 71,564,408
Pharmacy sales	10,682,267	4,521,911
Investment income	20,067	114,100
Other operating revenues	322,511	173,081
Total operating revenues	84,309,578	76,373,500
OPERATING EXPENSES		
Nursing services	31,502,362	31,759,909
General and administrative	12,105,738	11,342,944
Therapy and ancillary services	7,887,955	5,986,949
Cost of pharmacy sales	7,630,041	4,037,452
Dietary and food	5,370,615	5,158,366
Depreciation and amortization	3,650,869	3,536,483
Plant operations and maintenance	3,646,488	3,784,035
Provider fees	3,211,608	3,147,005
Housekeeping and laundry	2,878,111	2,756,619
Activities and social services	1,533,099	667,317
Lease expense	463,891	264,796
Advertising costs	161,058	141,230
Community services	119,603	120,557
Provision for bad debts	113,097	675,693
Total operating expenses	80,274,535	73,379,355
Operating income	4,035,043	2,994,145
NON-OPERATING REVENUES (EXPENSES)		
Gain on sale of assets	12,479	107,800
Miscellaneous income	(13,127)	181,037
Unrealized (loss) gain on interest rate swaps	(2,382,845)	1,568
Interest expense	(1,984,012)	(2,472,582)
Total non-operating revenues (expenses)	(4,367,505)	(2,182,177)
Change in net assets	(332,462)	811,968
NET ASSETS		
Beginning of year	45,788,831	44,636,409
Distributions to noncontrolling shareholder in subsidiary	(382,500)	-
Contributions from noncontrolling shareholder in subsidiary	-	340,454
End of year	$ 45,073,869	$ 45,788,831

The notes to the financial statements are an integral part of these statements.

COMMCARE CORPORATION
CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED JUNE 30, 2012 and 2011

	2012	2011
CASH FLOWS FROM OPERATING ACTIVITIES		
(Decrease) increase in net assets	$ (332,462)	$ 811,968
Adjustments:		
Depreciation and amortization	3,650,869	3,536,483
Unrealized loss (gain) on interest rate swaps	2,382,845	(1,568)
Provision for bad debts	113,097	675,693
Gain on sale of operating assets	(12,479)	(107,800)
Changes in assets and liabilities:		
Receivables (increase) decrease	(1,314,371)	1,413,335
Prepaid expenses decrease (increase)	400,776	(1,094,580)
Other assets decrease	35,417	337,720
Accounts payable and accrued expenses increase	1,247,930	1,267,565
Net cash provided by operating activities	6,171,622	6,838,816
CASH FLOWS USED IN INVESTING ACTIVITIES		
Purchases of property and equipment	(6,128,094)	(6,706,591)
Proceeds from disposal of assets	12,479	131,215
Proceeds from sale of investments	116,670	8,268,175
Acquisition of Rio Sol Nursing Home, net of cash received	(3,790,922)	-
Payments received on note receivable	313,549	302,514
Net cash (used in) provided by investing activities	(9,476,318)	1,995,313
CASH FLOWS FROM FINANCING ACTIVITIES		
Payments on bond principal	(3,240,000)	(3,080,000)
Proceeds from issuance of long-term debt	-	57,743
Payments on other obligations	(19,843)	(17,586)
Contributions from non controlling shareholder in subsidiary	-	340,454
Distributions to non controlling shareholder in subsidiary	(382,500)	-
Net cash used in financing activities	(3,642,343)	(2,699,389)
Net (decrease) increase in cash and cash equivalents	(6,947,039)	6,134,740
Cash and cash equivalents - beginning of year	23,749,952	17,615,212
Cash and cash equivalents - end of year	$ 16,802,913	$ 23,749,952
SUPPLEMENTAL DISCLOSURE OF NON-CASH FLOW INFORMATION		
Cash payments on interest	$ 1,938,873	$ 2,513,571

The notes to the financial statements are an integral part of these statements.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. Summary of Significant Accounting Policies

The accounting policies of CommCare Corporation (the Company), a Louisiana non-profit organization, conform with generally accepted accounting principles and reflect practices appropriate to the industry in which the Company and its subsidiaries operate. The Company has adopted June 30 to be its fiscal year end to coincide with the fiscal year end of the State of Louisiana. Significant policies are summarized below.

Organization and Business Description

CommCare Corporation was incorporated on January 12, 1984 and was recognized as exempt under Section 501(c)(3) of the Internal Revenue Code on May 16, 1984. The Company was dormant until 1992 when it began acquiring skilled nursing facilities. The Company's skilled nursing facilities consist of the real properties, improvements, machinery, equipment, inventories, supplies, licenses, and other tangible and intangible assets of thirteen nursing home facilities (the "Facilities") located in the State of Louisiana. The Facilities include 1,692 extended-care beds that are licensed and permitted for current operation by the Louisiana Department of Health and Hospitals and other state or Federal regulatory agencies having jurisdiction over the operations of the facilities. The Company also owns a 55% share of a pharmacy located in the State of Louisiana that began operations in fiscal year 2011.

Principles of Consolidation

The accompanying consolidated financial statements include the accounts of the Company and its wholly owned subsidiaries, CommCare Louisiana, CommCare Mississippi, and Senescence, LLC, as well as the accounts of the Company's majority owned subsidiary, CCC Pharmacy, LLC. Significant intercompany transactions and balances have been eliminated in the consolidation.

Patient Service Revenue and Concentration of Credit Risk

Patient service revenue is recorded at established billing rates or at the amount realizable under agreements with third-party payors. Revenues under third-party payor agreements are subject to examination and retroactive adjustment. Provisions for estimated third-party payor settlements are provided in the period the related services are rendered. Differences between the amounts accrued and subsequent settlements are recorded in operations in the year of settlement. The mix of revenues earned from the delivery of patient services were as follows for the periods ended June 30:

	2012	2011
Medicaid	56%	56%
Medicare	29	30
Other; including VA, Hospice and Private Payment	15	14
	100%	100%

Revenues from pharmacy sales are recorded at the time products are sold.

1. Summary of Significant Accounting Policies (continued)

Accounts Receivable

The Company grants credit without collateral to its residents, most of whom are local inhabitants and are covered under third-party payor agreements. Receivables net of allowances were $8,427,040 and $6,966,327 as of June 30, 2012 and June 30, 2011, respectively. Management performs an evaluation of amounts due from third-party payors (including estimated cost report settlements), residents, responsible parties, and insurers, and reduces accounts receivable by an allowance for uncollectible accounts. The allowance is calculated based on a number of factors including the age of the accounts, the payor type, and any ongoing disputes with third-party payors. The allowance for uncollectible accounts was $240,489 and $745,799 as of June 30, 2012 and June 30, 2011, respectively. Virtually all accounts receivable are pledged to secure debt (see Note 6).

Cash and Cash Equivalents and Concentration of Credit Risk

Cash and cash equivalents consist of demand deposits at commercial banks and overnight commercial repurchase agreements (repos). The Federal Deposit Insurance Corporation insures the demand deposit balances up to $250,000. The Company's uninsured cash balances at June 30, 2012 and 2011 totaled $2,018,540 and $694,507, respectively. At June 30, 2012 and 2011, the repo balances of $10,623,070 and $19,100,143, respectively, were secured by securities pledged under the agreements. Virtually all deposit accounts are pledged to secure debt (see Note 6).

Certain money market funds designated for capital acquisitions are excluded from cash and cash equivalents.

Property, Equipment and Depreciation

Property and equipment are recorded at cost. Renewals and improvements that extend the economic life of such assets are capitalized. Expenditures for maintenance, repairs and other renewals are expensed. Upon disposition of a capital asset, the asset's cost and accumulated depreciation are removed from the balance sheet and any gain or loss is included in the results of operations. Depreciation is recorded over the estimated useful life of an asset using the straight-line method.

The Company records impairment losses on long-lived assets used in operations when events and circumstances indicate that the assets might be impaired and the undiscounted cash flows estimated to be generated by those assets are less than the carrying amounts of those assets.

Bond Issuance Costs

The Company defers costs related to the issuance of the bonds and loan closing costs. Such costs have been capitalized and are amortized over the life of the bonds on a straight line basis which approximates the effective interest method.

Interest Rate Swaps

Generally accepted accounting principles require that all derivatives be recognized as assets or liabilities on the balance sheet at fair value. The Company may enter into derivative contracts to manage exposure to interest rate risk.

1. Summary of Significant Accounting Policies (continued)

Interest Rate Swaps (continued)

The Company utilizes interest rate swap agreements to convert a portion of its variable-rate debt to a fixed rate. Interest rate swaps are contracts in which a series of interest rate flows are exchanged over a prescribed period. The notional amount on which the interest payments are based is not exchanged. Changes in the fair value of these interest rate swaps are reported in current period earnings. (See Note 6).

Goodwill

During 2012, and as described in Note 2, the Company, as part of an acquisition, recognized goodwill. In accordance with authoritative guidance on intangible assets, goodwill is tested for impairment annually as of June 30 or on an interim basis if events or circumstances indicate that the fair value of the asset has decreased below its carrying value. The Company performed a qualitative assessment of events and circumstances to determine whether it was more likely than not that the fair value of the reporting unit that contained the goodwill was less than its carrying amount. Based on this assessment it was determined that it was not more likely than not that the fair value of the reporting unit was less than its carrying amount. As a result of this assessment, no impairment loss was recognized during the period ended June 30, 2012. A significant amount of judgment was involved in performing these evaluations since the results are based on estimated future events.

Intangible Assets

Intangible assets consist primarily of Certificates of Need (CON). Louisiana statutes require that the Company obtain a CON prior to the addition or construction of new nursing home beds, the addition of new services or certain capital expenditures in excess of defined levels. A CON certifies that the state has made a determination that a need exists for such new or additional beds, new services or capital expenditures. CONs arose in the acquisition of existing homes. The CONs have an indefinite useful life. Management evaluates the net carrying value of all intangible assets for impairment when circumstances indicate that the assets might be impaired, but no less than annually.

Income Taxes

No provision for income taxes has been made in the accompanying financial statements. The Internal Revenue Service has determined that the Company is a qualifying 501(c)(3) organization and is exempt from income taxes. Generally accepted accounting principles require an organization to account for uncertainties in income taxes. The interpretation requires recognition and measurement of uncertain income tax positions using a "more-likely-than-not" approach. The Company has reviewed its tax positions and determined there were no outstanding or retroactive tax positions with less than a 50% likelihood of being sustained upon examination of taxing authorities. The Company's tax returns for the years ended, June 30, 2011, June 30, 2010, and June 30, 2009 remain open and subject to examination by taxing authorities.

1. Summary of Significant Accounting Policies (continued)

Compensated Absences

Employees accumulate vacation and sick leave at varying rates according to years of service. Employees become vested in accrued vacation upon completion of six months of employment. Employees do not vest in accrued sick leave. Upon termination, all unused vacation hours are paid to the employee at the employee's current rate of pay provided that the employee has successfully completed six months of employment.

Advertising Costs

Advertising costs are expensed as incurred and totaled $161,058 and $141,230 for the years ended June 30, 2012 and 2011, respectively.

Use of 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 reported period. Such estimates and assumptions could change in the future as more information becomes known, which could impact the amounts reported and disclosed herein. Actual results could differ from those estimates.

2. Acquisition

In January 2012, the Company acquired 100% of the stock of Rio Sol Nursing Home, Inc a skilled nursing facility in Mansura, Louisiana. The Company paid $4,068,169 including consideration of the settlement of amounts post acquisition. Identifiable intangible assets include goodwill of $2,937,500 and the CON for $350,000. The following table summarizes the amounts of the assets and liabilities assumed at the acquisition date:

Prepaids	$ 317,872
Cash	277,247
Accounts receivable	259,438
Fixed assets	10,000
Intangible asset (CON)	350,000
Accrued liabilities	(83,888)
Total identifiable net assets	1,130,669
Goodwill	2,937,500
Total	$ 4,068,169

3. Notes Receivable

In 2009, the Company financed the sale of its sole member interests in three mental health operations through loans for a total amount of $920,000 with rates ranging from 3.25% to 6% per annum and maturing in 2012. The outstanding principal amount of the notes at June 30, 2012 and 2011 was $92,156 and $405,705 of which $92,156 and $325,120, respectively, is current.

4. Property and Equipment

Property and equipment consisted of the following at June 30:

	2012	2011
Land	$ 7,452,141	$ 6,526,169
Land improvements	4,010,619	3,990,596
Buildings and improvements	65,177,035	60,604,418
Furniture, fixtures and equipment	18,094,508	16,573,165
Construction in progress	3,909,056	4,624,486
Total property and equipment	98,643,359	92,318,834
Less accumulated depreciation	(26,821,436)	(23,105,356)
	$ 71,821,923	$ 69,213,478

Depreciation expense was $3,529,649 and $3,336,926 for the years ended June 30, 2012 and 2011 respectively. Substantially all land, buildings, improvements, and equipment are pledged to secure debt (see Note 6).

The Company leases an office and equipment under various operating leases. The future minimum fiscal year lease payments for all leases are as follows:

2013	$ 314,877
2014	293,774
2015	250,182
2016	203,589
2017	107,248
Thereafter	11,363
	$ 1,181,033

5. Restricted Assets

As of June 30, 2012 and 2011 the Company had cash and cash equivalents of $3,160,000 and $3,254,227, respectively, restricted for debt payments. The restricted cash is held in trust and reflects amounts deposited by the Company for payment on bonds.

6. Debt Obligations

Long term debt consisted of the following as of June 30:	2012	2011
LPFA Revenue Bonds Series 2008A, dated and funded June 24, 2008, in the original amount of $17,200,000. The bond matures on February 1, 2014 and interest payments are due monthly. The interest rate is based on the Weekly USD-SIFMA Municipal Index. The interest rate on the bonds was .09% and .31% at June 30, 2012 and 2011, respectively. The Company executed an interest rate swap with JPMorgan Chase (Chase) for the term of the bonds to effectively convert the variable interest rate to a fixed rate of 3.389%. The bonds are collateralized by an irrevocable transferable direct pay letter of credit (LOC) issued by Chase Bank in the amount of $17,397,918. The LOC is collateralized by a first mortgage and security interest in the twelve skilled nursing facilities owned by the Company including their revenues, receivables, and virtually all of their other assets. The Trustee of the bonds is The Bank of New York Mellon Trust Company.	$ 10,000,000	$ 12,995,000
LPFA Revenue Bonds Series 2008B dated and funded July 17, 2008, in the original amount of $47,500,000. The bond matures on August 1, 2023 and interest payments are due monthly. On November 17, 2011 the bonds were purchased by JP Morgan Chase and Trustmark National Bank and interest is calculated as 74% of one month LIBOR plus 1.95%. Previously interest was based on the Weekly USD-S1FMA Municipal Index. The interest rate on the bonds was 1.62% and .09% at June 30, 2012 and 2011, respectively. The Company executed an interest rate swap with JPMorgan Chase (Chase) for a three year period beginning October 1, 2008, to effectively convert the interest rate on $35 million of the bonds to a fixed rate of 3.175%. The bonds are collateralized by a first mortgage and security interest in the twelve skilled nursing facilities owned by the Company including their revenues, receivables, and virtually all of their other assets. The Trustee of the bonds is The Bank of New York Mellon Trust Company.	46,915,000	47,160,000
Notes payable secured by automobiles due in installments at various interest rates through 2015	20,314	40,157
Total debt obligations	56,935,314	60,195,157
Less current portion of debt	(3,405,000)	(3,240,000)
Long-term debt	$ 53,530,314	$ 56,955,157

6. Debt Obligations (continued)

Maturities of principal in subsequent fiscal years were as follows:

2013	$	3,405,000
2014		7,090,000
2015		2,115,314
2016		4,055,000
2017		4,250,000
Thereafter		36,020,000
Total	$	56,935,314

Interest expense for the years ended June 30, 2012 and 2011 was $1,984,012 and 2,472,582, respectively. Capitalized interest costs for the years ended June 30, 2012 and 2011 were $4,187 and $11,749, respectively.

In order to modify exposure to interest rate risk, the Company entered into interest rate swaps with JPMorgan Chase (Chase) related to the 2008A and 2008B bond issues that are secured by letters of credit issued by the Bank. The use of the swaps effectively converts the notional amount of the swaps related to each bond issue to fixed rates of 3.389% and 3.175%, respectively. At June 30, 2012 and 2011, the notional amounts were $17,200,000 and $6,840,000 for the 2008 A bonds respectively, and $35,000,000 for the 2008B bonds. The swap agreements were renewed on October 1, 2011 and expire on February 1, 2014 and October 3, 2016 for the Series 2008A and Series 2008B respectively. The swap agreements are subject to the ISDA Master Agreement between Chase and the Company. Terms of the agreements provide a right of set-off of security interests and collateral and netting of payments. As such, the agreements do not contain a significant investment element and are primarily "interest based". The Company has made the accounting policy decision to offset fair value amounts. Under the terms of the agreements, the only amount due between the parties is the net difference in the monthly interest rate computations; accordingly, the fair values are fully offset. The fair value of these swaps was $2,382,845 and $116,112 due the counterparty at June 30, 2012 and 2011 respectively. The Company recorded $921,162 and $1,367,019 as interest expense for the years ended June 30, 2012 and 2011 respectively, as a result of these swaps.

On February 25, 2011, the Company executed a fourth amendment and supplement to the reimbursement agreement with an effective date of July 1, 2010 resulting in an adjustment to its minimum net worth and minimum debt service requirements. The Company was in compliance with the financial covenants related to these bonds at June 30, 2012.

During fiscal year 2006, the Company placed funds in an irrevocable trust for completion of an in-substance defeasance for three series of bonds, Louisiana Public Facilities Authority Revenue Bonds Series 1994 — Ruston, Louisiana Public Facilities Authority Revenue Bonds Series 1994, and Louisiana Public Facilities Authority 2005 Series B & C. The outstanding balance for the defeased bonds totaled $13,400,000 as of June 30, 2012.

7. Accounts Payable and Accrued Expenses

Accounts payable and accrued expenses consist of the following at June 30:

	2012	2011
Accounts payable	$ 3,057,872	$ 1,957,374
Accrued salaries, wages, benefits, and payroll taxes	3,323,075	3,310,651
Accrued professional liability	849,045	790,000
Accrued workers compensation (see Note 9)	294,803	243,911
Other accrued expenses	646,173	537,214
	$ 8,170,968	$ 6,839,150

8. Fair Values of Financial Instruments

The Company determines the appropriate level in the fair value hierarchy for each fair value measurement. The level in the fair value hierarchy within which a fair value measurement falls is determined based on the lowest level input that is significant to the fair value measurement in its entirety. The levels are as follows:

Level 1 – Valuation is based on quoted prices in active markets for identical assets or liabilities that the reporting entity has the ability to access at the measurement date.

Level 2 – Valuation is based on inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly.

Level 3 –Valuation is based on unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities.

At June 30, 2012 and 2011, assets and liabilities measured at fair value on a recurring basis are summarized below:

	Level 1 Inputs	Level 2 Inputs	Level 3 Inputs	Total Fair Value
2012				
Interest rate swaps	$ -	$ 2,382,845	$ -	$ 2,382,845
Total	$ -	$ 2,382,845	$ -	$ 2,382,845
2011				
Interest rate swaps	$ -	$ 116,112	$ -	$ 116,112
Total	$ -	$ 116,112	$ -	$ 116,112

8. Fair Values of Financial Instruments (continued)

Fair values for interest rate swap agreements are based upon the amounts required to settle the contracts. Fair value of the derivative instruments are estimated using prices of financial instruments with similar characteristics, and thus the instruments are classified within Level 2 of the fair value hierarchy.

9. Workers' Compensation Insurance

Through May 2010, the Company participated in a self-insured workers' compensation plan for its Louisiana facilities. The plan was administered in accordance with Louisiana laws and had excess insurance coverage equal to or greater than the statutory limits. A third-party administrator identified, processed and settled claims. Losses from asserted claims and from unasserted claims identified under the incident reporting system were accrued based on estimates that incorporated past experience, as well as other considerations including the nature of each claim or incident and relevant trend factors. During fiscal year 2010, the Company became fully insured by Risk Management Services.

10. Related Party Transactions

The company purchased land for development of a future nursing home location from an officer of the company. The amount was based on an appraised value and totaled $880,000. This purchase is included in property and equipment, net on the consolidated balance sheet.

11. Commitments and Contingencies

There are various claims and litigation against the Company as of June 30, 2012, that could materially affect its financial position at the time of the ultimate settlement of such actions. The Company has insurance coverage for all claims in the state of Mississippi. For medical malpractice cases in Louisiana, the Company is self-insured up to the first $100,000 per claim and is covered for the excess over $100,000 up to the statutory malpractice damages "cap" of $500,000 through enrollment in the Louisiana Patients' Compensation Fund (the "Fund"). Management is of the opinion that the Company's reserve provides adequate coverage for the first $100,000 of each claim outstanding. Due to the state of nursing home litigation and the unpredictability of jury verdicts, it is the opinion of management that it is reasonably possible that this estimate will change in the near term.

12. Changes in Consolidated Unrestricted Net Assets

The following table depicts the changes in consolidated unrestricted net assets attributable to the Company and to the non controlling interest in the CCC Pharmacy, LLC subsidiary:

	Total	CommCare Corporation	Non Controlling Interest
Balance July 1, 2010	$ 811,968	$ 811,968	$ -
Excess of revenues over expenses	811,968	685,437	126,531
Contributions of non controlling interest	44,636,409	-	44,636,409
Balance June 30, 2011	46,260,345	1,497,405	44,762,940
Excess of revenues over expenses	(126,531)	(126,531)	-
Distributions to non controlling interest	1,347,073	-	1,347,073
Balance June 30, 2012	$ 47,480,887	$ 1,370,875	$ 46,110,013

13. Subsequent Events

On July 3, 2012, the Company sold two of its Facilities for $10,000,000 resulting in a gain of $1,156,759 that will be recorded in the fiscal 2013 financial statements. The proceeds from the sale were used to retire the 2008A bonds which after the July 1, 2012 bond principle payment had a remaining balance of $6,840,000. The remaining proceeds were used to partially redeem the 2008B bonds.

The Company has a term loan commitment for $10,200,000 to finance the construction of additional facilities. The loan's interest rate is based on LIBOR rates.

Management has evaluated subsequent events through the date that the financial statements were available to be issued, November 30, 2012, and determined that no additional disclosures are necessary.

P&N Postlethwaite & Netterville

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INDEPENDENT AUDITORS' 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*

The Board of Directors
CommCare Corporation

We have audited the consolidated financial statements of CommCare Corporation (the Company) as of and for the year ended June 30, 2012, and have issued our report thereon dated November 30, 2012. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

Management of the Company is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered the Company'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 Company's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Company's internal control over financial reporting

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

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

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Organization'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 that are required to be reported under *Government Auditing Standards*.

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This report is intended solely for the information and use of the audit committee, management of the Company and the State of Louisiana Legislative Auditor's Office and is not intended to be and should not be used by anyone other than these specified parties. However, under Louisiana Revised Statute 24:513, this report is distributed by the Legislative Auditor as a public document.

Postlethwaite & Netterville

Metairie, Louisiana
November 30, 2012