Consolidated Financial Statements and Florida Single Audit Report

The Devereux Foundation and Controlled Entities
Year Ended June 30, 2015 and 2014
With Report of Independent Auditors

Ernst & Young LLP

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The Devereux Foundation and Controlled Entities

Consolidated Financial Statements
and Florida Single Audit Report

Years Ended June 30, 2015 and 2014

Contents

Report of Independent Auditors 1

Audited Consolidated Financial Statements

Consolidated Balance Sheets 3
Consolidated Statements of Operations and Changes in Net Assets 5
Consolidated Statements of Cash Flows 7
Notes to Consolidated Financial Statements 8

Florida Single Audit

Schedule of Expenditures of State Financial Assistance 31
Notes to the Schedule of Expenditures of State Financial Assistance 32
Report of Independent Auditors 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* 33
Report of Independent Auditors on Compliance for Each Major State Financial Assistance Project and Report on Internal Control Over Compliance Required by Section 215.97, *Florida Statutes*, and Chapter 10.650, *Rules of the Auditor General* 35
Schedule of Findings and Questioned Costs 37

Supplementary Information

Schedule of Functional Expenses 39

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Report of Independent Auditors

The Board of Trustees
The Devereux Foundation and Controlled Entities

Report on the Financial Statements

We have audited the accompanying consolidated financial statements of The Devereux Foundation and Controlled Entities (Devereux), which comprise the consolidated balance sheets as of June 30, 2015 and 2014, and the related consolidated statements of operations and changes in net assets and cash flows for the years then ended and the related notes to the consolidated financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in conformity with U.S. generally accepted accounting principles; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of consolidated financial statements that are free of material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States 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 involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

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

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Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of The Devereux Foundation and Controlled Entities as of June 30, 2015 and 2014, and the results of operations and changes in its net assets and its cash flows for the years then ended in conformity with U.S. generally accepted accounting principles.

Supplementary Information

Our audits were conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The accompanying schedule of expenditures of state financial assistance and schedule of functional expenses are presented for purposes of additional analysis as required by Section 215.97, *Florida Statutes*, and Chapter 10.650, *Rules of the Auditor General*, and are not a required part of the consolidated 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 consolidated financial statements. The information has been subjected to the auditing procedures applied in the audit of the consolidated financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the consolidated financial statements or to the consolidated financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States. In our opinion, the information is fairly stated, in all material respects, in relation to the consolidated financial statements as a whole.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we also have issued our report dated September 21, 2015, on our consideration of Devereux'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 internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Devereux's internal control over financial reporting and compliance.

Ernst + Young LLP

September 21, 2015, except for the schedule of expenditures of state financial assistance and schedule of functional expenses, for which the date is December 18, 2015

The Devereux Foundation and Controlled Entities

Consolidated Balance Sheets

(In Thousands)

	June 30 2015		June 30 2014
Assets			
Current assets:			
Cash and cash equivalents, including client funds on deposits of $1,907 and $1,835 in 2015 and 2014, respectively	**$**	**12,675**	$ 13,061
Accounts receivable, net of allowance for uncollectibles of $6,357 and $6,744 in 2015 and 2014, respectively		**50,558**	45,608
Current portion of assets limited as to use		**751**	729
Operating fund investments		**18,876**	18,005
Prepaid expenses and other current assets		**5,385**	3,486
Total current assets		**88,245**	80,889
Assets limited as to use:			
By Board for designated purposes		**102,967**	100,264
By trustees under bond indenture agreements		**2,685**	2,716
By Board for donor purposes		**14,105**	14,756
By insurance agreement		**4,000**	4,000
		123,757	121,736
Property and equipment, net		**111,267**	111,105
Other assets:			
Other assets		**469**	522
Deferred financing costs, net		**909**	937
Pledges receivable and deferred gifts		**6,350**	6,461
Total other assets		**7,728**	7,920
Total assets	**$**	**330,997**	$ 321,650

	June 30	
	2015	**2014**
Liabilities and net assets		
Current liabilities:		
Current portion of long-term debt	**$ 3,725**	$ 3,433
Accounts payable and accrued expenses	**10,783**	8,809
Employee compensation and related benefits	**27,997**	25,037
Estimated settlements due to third-party payors	**13,888**	10,324
Reserves under insurance programs and other current liabilities	**12,345**	11,264
Client funds on deposit	**1,907**	1,835
Total current liabilities	**70,645**	60,702
Estimated settlements due to third-party payors	**909**	2,907
Reserves under insurance programs and other liabilities	**17,609**	17,113
Deferred revenue	**7,562**	7,256
Obligation to provide future services and use of facilities to continuing care clients	**7,277**	6,604
Long-term debt	**59,349**	58,181
Total liabilities	**163,351**	152,763
Net assets:		
Unrestricted	**146,909**	147,458
Temporarily restricted	**13,550**	13,745
Permanently restricted	**7,187**	7,684
Total net assets	**167,646**	168,887
Total liabilities and net assets	**$ 330,997**	$ 321,650

See accompanying notes.

The Devereux Foundation and Controlled Entities

Consolidated Statements of Operations and Changes in Net Assets
(In Thousands)

	Year Ended June 30	
	2015	**2014**
Unrestricted net assets		
Revenue:		
Net client revenue	**$ 401,253**	$ 375,875
Investment income	**7,736**	7,759
Gifts and bequests	**5,202**	5,579
Other revenue	**10,195**	9,319
Net assets released from restrictions for operations	**2,245**	2,209
	426,631	400,741
Expenses:		
Salaries and wages	**240,255**	224,494
Employee benefits	**67,373**	63,521
Food	**7,396**	6,835
Purchased services	**35,319**	32,866
Supplies	**8,682**	7,928
Plant operation and maintenance	**25,874**	25,443
Provision for bad debts	**1,838**	3,137
Depreciation and amortization	**13,397**	12,275
Interest	**3,179**	2,812
Insurance	**3,476**	3,633
Other	**11,138**	10,961
	417,927	393,905
Operating income before other items	**8,704**	6,836
Other items:		
Loss on early extinguishment of debt	**–**	(121)
Excess of fair value of net assets acquired over consideration paid	**662**	–
Increase in obligation to provide future services and the use of facilities to continuing care clients	**(673)**	(51)
Change in fair value of interest rate swap	**(84)**	(295)
Net gain on disposition of property	**373**	399
Other income (losses)	**278**	(68)
Excess of revenue over expenses	**8,982**	6,768

(Continued on following page.)

The Devereux Foundation and Controlled Entities

Consolidated Statements of Operations and Changes in Net Assets (continued)

(In Thousands)

	Year Ended June 30 2015	2014
Unrestricted net assets (continued)		
Excess of revenue over expenses	**$ 8,982**	$ 6,768
Other changes in unrestricted net assets:		
Unrealized (loss) gains on investments	**(8,923)**	8,693
Net assets released from restrictions for property and equipment purchases	**1,162**	766
Other	**(1,770)**	141
(Decrease) increase in unrestricted net assets	**(549)**	16,368
Temporarily restricted net assets		
Gifts, grants, and bequests, net	**3,360**	3,422
Excess of fair value of net assets acquired over consideration paid	**172**	–
Net assets released from restrictions for operations	**(2,565)**	(2,866)
Net assets released from restrictions to finance property and equipment purchases	**(1,162)**	(766)
Decrease in temporarily restricted net assets	**(195)**	(210)
Permanently restricted net assets		
Gifts, grants, and bequests	**3**	5
Net realized and unrealized (loss) gains on investments	**(169)**	635
Other	**(331)**	(337)
(Decrease) increase in permanently restricted net assets	**(497)**	303
(Decrease) increase in net assets	**(1,241)**	16,461
Net assets, beginning of year	**168,887**	152,426
Net assets, end of year	**$ 167,646**	$ 168,887

See accompanying notes.

The Devereux Foundation and Controlled Entities

Consolidated Statements of Cash Flows

(In Thousands)

	Year Ended June 30 2015	2014
Operating activities		
(Decrease) increase in net assets	$ **(1,241)**	$ 16,461
Adjustments to reconcile increase in net assets to net cash provided by operating activities:		
Net gain on disposition of property	**(373)**	(399)
Excess of fair value of net assets acquired over consideration paid	**(834)**	
Loss on early extinguishment of debt	**–**	121
Depreciation and amortization	**13,397**	12,275
Provision for bad debts	**1,838**	3,137
Net realized and unrealized losses (gains) in fair value of investments	**6,782**	(10,962)
Increase in obligation to provide future services	**673**	51
Change in fair value interest rate swap	**84**	295
Restricted contributions	**(2,872)**	(3,427)
Changes in operating assets and liabilities:		
Accounts receivable	**(6,788)**	154
Prepaid expenses and other current assets	**(1,658)**	(418)
Pledges receivable	**1,041**	657
Accounts payable and accrued expenses	**1,496**	222
Employee compensation and related benefits	**2,960**	1,347
Deferred revenue	**88**	(601)
Estimated settlements due to third-party payors, net	**1,566**	2,086
Reserves under insurance programs and other current liabilities	**1,649**	(87)
Net cash provided by operating activities	**17,808**	20,912
Investing activities		
Purchases of property and equipment, net	**(10,168)**	(13,309)
Acquisition of businesses	**(1,771)**	–
Other assets	**53**	(3)
Increase in investments	**(9,696)**	(2,791)
Net cash used in investing activities	**(21,582)**	(16,103)
Financing activities		
Proceeds from long-term debt	**5,000**	10,460
Repayments of long-term debt	**(3,540)**	(8,424)
Deferred financing costs incurred	**(14)**	(68)
Restricted contributions, net	**1,942**	2,757
Net cash provided by financing activities	**3,388**	4,725
(Decrease) increase in cash and cash equivalents	**(386)**	9,534
Cash and cash equivalents at beginning of year	**13,061**	3,527
Cash and cash equivalents at end of year	**$ 12,675**	$ 13,061

See accompanying notes.

1. Organization and Basis of Presentation

The Devereux Foundation and Controlled Entities (Devereux) is a not-for-profit corporation, dually designated by the Internal Revenue Service (IRS) as an educational facility and health care organization, with a nationwide network of behavioral health treatment centers for children, adolescents, and adults with complex emotional, psychiatric, and developmental disabilities, including individuals with autism spectrum disorders. Treatment settings range along a continuum from acute psychiatric inpatient and campus-based residential settings to outpatient, foster care, in home, educational, vocational and prevention programs.

Devereux functions as the sole corporate member for the following entities, which are included in the accompanying consolidated financial statements:

Helena Devereux Foundation (HD Foundation) is a Pennsylvania not-for-profit corporation, which holds certain assets to benefit Devereux's programs.

Devereux Cleo Wallace (DCW) is a Colorado not-for-profit corporation that operates a psychiatric residential treatment facility and provides other behavioral health services in the Denver area. DCW is the sole corporate member of Devereux Cleo Wallace Foundation (DCW Foundation), a Colorado not-for-profit corporation that was established for the benefit of DCW.

All significant intercompany balances and transactions have been eliminated in the accompanying consolidated financial statements.

Devereux is affiliated with Devereux Community Based Care (DCBC), which is a Florida not-for-profit corporation that, effective November 1, 2013, entered into a contract with the Florida Department of Children and Families to administer and coordinate child welfare and related services in Indian River, Martin, Okeechobee, and St. Lucie counties in Florida. Devereux provides certain administrative, financial, and other support services to DCBC. It also appoints a simple majority of DCBC's Board of Directors, with the remaining seats filled by individuals from the local community. However, major decisions of the Board require supermajority approval, defined as two-thirds of the directors. Accordingly, Devereux does not control the Board of DCBC and, because it also has no direct economic or controlling interest, DCBC is not consolidated into Devereux's consolidated financial statements.

2. Summary of Significant Accounting Policies

Use of Estimates

The preparation of consolidated financial statements in conformity with accounting principles generally accepted in the United States (U.S. GAAP) requires management to make estimates and assumptions that affect the amounts reported in the consolidated financial statements and accompanying notes. Actual results could differ from those estimates.

Cash and Cash Equivalents

Cash and cash equivalents, for which the carrying value approximates fair value, include money market funds and certain investments with original maturities of three months or less.

Fair Value of Financial Instruments

Financial instruments consist of cash equivalents, accounts receivable, assets limited as to use and investment, accounts payable and accrued expenses, and long-term debt. The carrying amounts reported in the consolidated balance sheets for cash equivalents, accounts receivable, assets limited as to use and investment, and accounts payable and accrued expenses approximate fair value. Management's estimates of the fair value of other financial instruments are described elsewhere in the notes to the consolidated financial statements.

Allowance for Uncollectibles

Devereux provides an allowance for uncollectible accounts for estimated losses resulting from the unwillingness or inability of clients to make payments for services. The allowance is determined by analyzing specific accounts and historical data and trends. Accounts receivable are charged off against the allowance for uncollectible accounts when management determines that recovery is unlikely and Devereux ceases collection efforts.

Assets Limited as to Use, Investments, and Investment Income

Assets limited as to use include assets set aside by the Board of Trustees (the Board), assets held by trustees under bond indenture agreements, assets for insurance agreements, and assets held by the Board for donor purposes. Amounts set aside by the Board are designated for the operation of

2. Summary of Significant Accounting Policies (continued)

certain facilities, scholarships, continuing care, and other contingencies. The Board retains control over designated assets and may, at its discretion, subsequently use the assets for other purposes. Assets limited as to use that are required for current obligations or designated for current use are reported as current assets.

Investments in debt and equity securities are measured at fair value based on quoted market prices. Investment income or loss (including realized gains and losses on investments, interest, and dividends) is included in unrestricted investment income, or included in restricted investment income, if such income is restricted by the donor or legislation. Devereux periodically reviews its investments for other-than-temporary declines in the market value of investments. When an other-than-temporary decline is identified, the investment's cost is written down to the current market value and the loss is recorded as a component of the excess of revenue over expenses.

Unrealized gains and losses on investments, to the extent that such losses are considered temporary, are reported as a component of changes in unrestricted or restricted net assets. Realized gains and losses on investments sold are computed using the weighted average cost method.

Property and Equipment

Property and equipment are recorded at cost or, if donated, at fair market value at the date of receipt. Depreciation is provided on a straight-line basis over the expected useful lives of the assets. Gifts of long-lived assets, such as land, buildings, or equipment, are reported as other changes in net assets. Interest cost incurred on borrowed funds during the period of construction of capital assets is capitalized as a component of acquiring those assets.

Deferred Financing Costs

Deferred financing costs consist of bond financing costs, which relate to the long-term debt, and are amortized using the effective-interest-rate method over the term of the related debt.

2. Summary of Significant Accounting Policies (continued)

Temporarily and Permanently Restricted Net Assets

Temporarily restricted net assets represent those assets whose use has been limited by donors to a specific time period or purpose. Permanently restricted net assets have been restricted by donors to be maintained by Devereux in perpetuity, with income generally available to support health care and education services.

Permanently restricted net assets are invested on a pooled basis with Devereux's Board-designated investments. In accordance with Commonwealth of Pennsylvania Act 141, organizations are annually permitted to spend between 2% and 7% of permanently restricted net assets. For both 2015 and 2014, Devereux elected to spend at a rate of 5%. Additionally, in accordance with the Pennsylvania law, Devereux classifies as permanently restricted net assets (a) the value of gifts donated to the permanent endowment and (b) accumulations to the permanent endowment made in accordance with the direction of the applicable donor gift instrument. This is regarded as the "historic dollar value" of the endowed fund. Any remaining, unspent earnings or net appreciation of the donor-restricted endowment funds is not classified in permanently restricted net assets and is classified as temporarily restricted net assets until those amounts are appropriated for expenditure by Devereux in a manner consistent with Devereux's spending policy.

Excess of Revenue Over Expenses

Included in the excess of revenue over expenses in the accompanying consolidated statements of operations and changes in net assets are all changes in unrestricted net assets, except for unrealized gains and losses on investments, to the extent that such losses are considered temporary, and net assets released from restrictions for property and equipment additions and other changes.

Income Taxes

The IRS determined that Devereux, HD Foundation, DCW, and DCW Foundation qualify under certain provisions of the Internal Revenue Code and are exempt from federal income taxes. Accordingly, no provision for federal or state income taxes is included in the accompanying consolidated financial statements. Devereux, HD Foundation, DCW, and DCW Foundation have

2. Summary of Significant Accounting Policies (continued)

reviewed the technical merits of each of its tax positions in accordance with U.S. GAAP for uncertainty in income taxes, and have determined there are no uncertain tax positions that would have a material impact on the accompanying consolidated financial statements.

Charity Care

In advancement of its charitable mission, Devereux accepts clients with limited or no ability to pay for services. A client is classified as a charity client by reference to certain established policies. Essentially, these policies define charity services as those for which no payment is anticipated. In assessing a client's ability to pay, Devereux uses generally recognized poverty income levels, but also includes cases where incurred charges are significant relative to income.

Under certain governmental reimbursement programs, Devereux has been paid an amount less than actual costs due to agency budgeting constraints or other factors. The economic loss attributable to such programs is also included as charity care. Charity care amounts are not included in net client revenue or accounts receivable. The amount of costs incurred for services provided to clients that qualify for charity care and the economic shortfall attributable to unreimbursed costs of certain programs aggregated $9,586 and $11,874 in 2015 and 2014, respectively.

In total, the amounts Devereux receives from third-party payors do not cover the full cost of providing services to its clients. For 2015 and 2014, the percentage of total expenses covered by Devereux's clients or third-party payors was 98.60% and 97.90%, respectively.

Devereux also provides a variety of services and benefits within the communities in which it operates, for which no compensation is received. The cost of these services has not been quantified and, therefore, is not included in the charity care amounts referred to above.

Contributions

Unconditional promises to give cash and other assets are reported at fair value at the date the promise is received. Unconditional promises to give cash and other assets that are expected to be collected in future years are recorded at the present value of estimated future cash flows. The discounts on those amounts are computed using a risk-free interest rate applicable to the year in which the promise is received. The gifts are reported as either temporarily or permanently

2. Summary of Significant Accounting Policies (continued)

restricted support if they are received with donor stipulations that limit the timing or nature in which donated assets can be used. When a donor restriction expires, temporarily restricted net assets are reclassified as unrestricted net assets and reported in the consolidated statement of operations and changes in net assets as net assets released from restrictions. Donor-restricted contributions whose restrictions are met within the same year as received are reported as gifts and bequests in the accompanying consolidated financial statements.

Functional Expenses

Devereux and its members' primary mission is to provide behavioral health care and education services to its clients. The majority of all operating expenses incurred were related to the provision of these services.

Reclassifications

Certain reclassifications have been made to the financial statements of the prior year to conform to the current-year presentation.

Recent Accounting Pronouncements

In April 2015, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) 2015-03, *Simplifying the Presentation of Debt Issuance Costs*. The new standard will require debt issuance costs to be presented on the balance sheet as a direct reduction of the carrying value of the associated debt liability, consistent with the presentation of debt discounts. Currently, debt issuance costs are presented as a deferred asset. The recognition and measurement requirements will not change as a result of this guidance. The standard is effective for the annual reporting periods beginning after December 15, 2015 and will be applied on a retrospective basis. This amendment will not have a material impact on the consolidated financial statements.

In May 2014, the FASB issued ASU 2014-09, *Revenue from Contracts with Customers*, which provides guidance for revenue recognition. The new standard will require revenue recognized to represent the transfer of promised goods or services to customers in an amount that reflects the consideration in which a company expects to receive in exchange for those goods or services. The standard also requires new, expanded disclosures regarding revenue recognition. In

2. Summary of Significant Accounting Policies (continued)

July 2015, the FASB voted to defer the effective date to January 1, 2018, with early adoption permissible beginning January 1, 2017. Devereux is currently evaluating the impact the adoption of this standard will have on the consolidated financial statements.

In May 2015, the FASB issued ASU 2015-07, *Disclosures for Investments in Certain Entities That Calculate Net Asset Value per Share (or Its Equivalent)*. The new standard removes the requirement to categorize within the fair value hierarchy investments for which fair values are estimated using the net asset value practical expedient provided by FASB Accounting Standards Codification (ASC) 820, *Fair Value Measurements and Disclosures*. Disclosures about investments in certain entities that calculate net asset value per share are limited under the new standard to those investments for which the entity has elected to estimate the fair value using the practical expedient. The standard is effective for the annual reporting periods beginning after December 15, 2015, and will be applied on a retrospective basis. This amendment will not have a material impact on our consolidated financial statements.

Subsequent Events

In accordance with ASC 855, *Subsequent Events*, management has evaluated subsequent events through the date the accompanying consolidated financial statements were issued on September 21, 2015.

3. Net Client Revenue

Accounts receivable and net client revenue are reported on the accrual basis in the period in which services are rendered at established rates, net of contractual adjustments, discounts, and charity care. Devereux recognizes bad debt expense and the allowance for uncollectible accounts based on its historical experience and individual account analysis.

The majority of services are rendered to clients through reimbursement programs administered by state and local governmental agencies. A majority of those services are funded directly or indirectly by Pennsylvania, New Jersey, Florida, New York, and California. No single government agency accounted for more than 10% of revenue in 2015 or 2014. Under these programs, reimbursed amounts are based upon fee-for-service rates, a combination of historical costs and prospectively determined rates, or reasonable costs, as defined. In total, these programs

3. Net Client Revenue (continued)

accounted for 95% of total net client revenue in fiscal years 2015 and 2014. Remaining services are rendered through payment arrangements with managed care organizations, commercial insurance carriers, or private accounts.

Certain governmental agencies pay an interim rate or a fixed periodic amount during the period Devereux provides services and retroactively adjusts the reimbursement based upon actual costs incurred during the year or based on actual units of service delivered. Third-party settlements with governmental agencies are accrued on an estimated basis in the period the related services are rendered. Estimated settlements due to third-party payors are classified as current or non-current based on the anticipated timing of settlements. Differences between the estimated settlement and the finalized amounts are recorded in the year of settlement. During 2015 and 2014, prior year settlement adjustments increased net client revenue by $873 and $612, respectively. In the opinion of management, adequate provision has been made for any additional adjustments that may result from the final settlement of outstanding cost reports.

Devereux is subject to numerous laws and regulations of federal, state, and local governments. Compliance with these laws and regulations can be subject to government review and interpretation, as well as regulatory actions unknown and unasserted at this time. Government activity in the health care industry continues to increase with respect to investigations and allegations concerning possible violations of regulations by health care providers, which could result in the imposition of significant fines and penalties, as well as significant repayments of previously billed and collected revenues of client services. Devereux has implemented a corporate compliance program and conducts documentation audits of services provided and the underlying clinical documentation to ensure compliance with established regulations. When potential overpayments are identified, payors are notified and refunds issued.

(In Thousands)

4. Investments

Investments are stated at fair value as follows:

	June 30 2015	June 30 2014
Assets limited as to use and operating fund investments:		
Cash and cash equivalents	**$ 4,892**	$ 5,549
Equity mutual funds	**52,153**	47,483
Commodity funds	**6,365**	6,111
Real estate investment trust (REIT) funds	**2,882**	5,260
Fixed-income mutual funds	**6,673**	8,201
Multi-asset funds	**59,462**	58,018
U.S. government and agency bonds	**10,957**	9,848
Total	**$ 143,384**	$ 140,470

Investment income and realized and unrealized gains and losses on investments and cash and cash equivalents are composed of the following:

	Year Ended June 30 2015	Year Ended June 30 2014
Unrestricted net assets		
Amounts included in investment income:		
Interest, dividends, and distributions	**$ 5,425**	$ 6,125
Net realized gains on sales of investments	**2,311**	1,634
	7,736	7,759
Other changes in unrestricted net assets:		
Net change in unrealized gains and losses on investments	**(8,923)**	8,693
Permanently restricted net assets		
Net realized and unrealized (losses) gains on investments	**(169)**	635
Total investment (loss) gain	**$ (1,356)**	$ 17,087

4. Investments (continued)

As of June 30, 2015, Devereux had unrealized gains of $17,762 on investments with a fair value of $127,736. As of June 30, 2015, Devereux had unrealized losses of $281 on investments with a fair value of $15,648. The unrealized losses are considered to be temporary in nature and are not material to the overall investment portfolio. No investments had unrealized losses as of June 30, 2014.

5. Fair Value Measurements

In determining fair value, Devereux uses the market approach. The market approach utilizes prices and other relevant information generated by market transactions involving identical or comparable assets or liabilities. Information used to establish fair value estimates falls into three tiers, which prioritize the inputs used in measuring fair value. These tiers include Level 1 – defined as observable inputs such as quoted prices in active markets; Level 2 – defined as inputs other than quoted prices in active markets that are either directly or indirectly observable; and Level 3 – defined as unobservable inputs in which little or no market data exists, therefore, requiring an entity to develop its own assumptions.

(In Thousands)

5. Fair Value Measurements (continued)

The following tables present the fair value hierarchy for Devereux's financial assets and liabilities measured at fair value on a recurring basis.

	Total	Level 1	Level 2	Level 3
June 30, 2015				
Cash and cash equivalents	$ 12,675	$ 12,675	$ –	$ –
Assets limited as to use and operating fund investments:				
Cash and cash equivalents	$ 4,892	$ 4,892	$ –	$ –
Equity mutual funds	52,153	52,153	–	–
Commodity funds	6,365	6,365	–	–
REIT funds	2,882	2,882	–	–
Fixed-income mutual funds	6,673	6,673	–	–
U.S. government and agency bonds	10,957	10,957	–	–
Multi-asset funds	59,462	15,648	43,814	–
	$ 143,384	$ 99,570	$ 43,814	$ –
Beneficial interest in trusts held by third parties, net	$ 6,143	$ –	$ 6,143	$ –
Liabilities:				
Interest rate swap	$ 411	$ –	$ 411	$ –

(In Thousands)

5. Fair Value Measurements (continued)

	Total	Level 1	Level 2	Level 3
June 30, 2014				
Cash and cash equivalents	$ 13,061	$ 13,061	$ –	$ –
Assets limited as to use and operating fund investments:				
Cash and cash equivalents	$ 5,549	$ 5,549	$ –	$ –
Equity mutual funds	47,483	47,483	–	–
Commodity funds	6,111	6,111	–	–
REIT funds	5,260	5,260	–	–
Fixed-income mutual funds	8,201	8,201	–	–
U.S. government and agency bonds	9,848	9,848	–	–
Multi-asset funds	58,018	11,000	47,018	–
	$ 140,470	$ 93,452	$ 47,018	$ –
Beneficial interest in trusts held by third parties, net	$ 5,689	$ –	$ 5,689	$ –
Liabilities:				
Interest rate swap	$ 327	$ –	$ 327	$ –

Devereux's Level 1 securities primarily consist of cash, money market funds, equity mutual funds, commodity funds, REIT funds, fixed-income mutual funds, and U.S. government and agency bonds. Devereux determines the estimated fair value for its Level 1 securities using quoted (unadjusted) prices for identical assets or liabilities in active markets.

Devereux has investments in two multi-asset funds. One of the funds is an exchange-traded mutual fund whose fair value has been determined using Level 1 inputs. In accordance with ASU 2009-12, *Fair Value Measurements and Disclosures (Topic 820): Investments in Certain Entities That Calculate Net Asset Value per Share (or Its Equivalent)*, the fair value of Devereux's other investment in a multi-asset fund was calculated using the fund's net asset value per share at June 30, 2015 and 2014. The fair value of these underlying assets as of June 30, 2015 and 2014, was $43,814 and $47,018, respectively, with a daily redemption period without notice. This multi-asset fund requires no up-front commitments and is made up of the following diversified

(In Thousands)

5. Fair Value Measurements (continued)

investments: common stock, convertible bonds, commodity funds and REIT funds, corporate bonds, asset-backed securities, mortgage-backed securities, U.S. government and agency bonds, U.S. Treasury bonds, acquired funds, preferred stocks, and other short-term investments. Given Devereux's prompt ability to liquidate this investment at its net asset value, it was classified as a Level 2 investment.

The interest rate swap, which is classified as a Level 2 liability, is valued using techniques including discounted cash flow analysis on the expected cash flow of the derivative. This analysis reflects the contractual terms of the derivative, including the period to maturity, and uses observable market-based inputs, including interest rate curves.

6. Property and Equipment

	Estimated Useful Lives	**June 30 2015**	**2014**
Land		**$ 6,575**	$ 6,145
Land improvements	8–25 years	**26,122**	25,558
Buildings and improvements	5–40 years	**227,844**	220,007
Equipment	3–20 years	**65,893**	62,313
Construction in progress		**1,493**	1,461
		327,927	315,484
Less accumulated depreciation and amortization		**216,660**	204,379
		$ 111,267	$ 111,105

(In Thousands)

7. Pledges Receivable and Deferred Gifts

The following is a summary of promises to give funds to Devereux:

	June 30	
	2015	**2014**
Pledges receivable in:		
Less than one year	**$ 45**	$ 293
One to five years	**187**	556
	232	849
Less allowance for uncollectible accounts	**(12)**	(40)
Less discount to present value	**(13)**	(37)
Pledges receivable, net	**207**	772
Beneficial interest in trusts held by third parties, net	**6,143**	5,689
Total	**$ 6,350**	$ 6,461

The present value of the future cash flows of pledges receivable was determined using discount rates approximating 2.0% for 2015 and 2014.

Devereux periodically receives indications of an intention to give from individuals through the settlement of the individuals' estates. The anticipated value of these intended gifts has not been established, nor has it been recognized as an asset in the consolidated balance sheets.

The beneficial interests in trusts are unconditionally designated for the benefit of Devereux upon the occurrence of some future event. During 2015, Devereux did not receive any cash from trusts and no new gifts in beneficial interest in trusts were received. During 2014, Devereux did not receive any cash from trusts; one new gift of $450 in beneficial interest in trusts was received. The interests are recorded at fair value as represented by the third-party trustee.

(In Thousands)

8. Long-Term Debt

	June 30	
	2015	**2014**
\$29,240 tax-exempt Chester County Health and Education Facilities Authority Revenue Bonds, Series of 2006 (the 2006 Pennsylvania Bonds)	**\$ 22,780**	\$ 23,670
3.25% to 7.15% mortgages payable monthly through October 2028, secured by the related properties, equipment, or revenue	**8,909**	9,486
\$6,580 tax-exempt Chester County Health and Education Facilities Authority Revenue Bonds, Series of 2011 (the 2011 Pennsylvania Bonds)	**5,064**	5,449
\$8,745 tax-exempt Chester County Health and Education Facilities Authority Revenue Bonds, Series of 2012 (the 2012 Pennsylvania Bonds)	**7,735**	8,245
\$7,054 tax-exempt Colorado Health Facilities Authority Revenue Bonds, Series of 2012 (the 2012 Colorado Bonds)	**5,700**	6,392
\$9,000 taxable borrowing from a bank (the 2013 Loan)	**7,594**	8,004
\$5,000 taxable borrowing from a bank (the 2015 Loan)	**4,962**	–
Total long-term debt	**62,744**	61,246
Less current portion	**(3,725)**	(3,433)
Net original issue premium	**330**	368
Net long-term debt	**\$ 59,349**	\$ 58,181

In February 2015, Devereux entered into an agreement with a bank to borrow \$5,000 in fixed-rate debt (the 2015 Loan) to finance certain capital expenditures. The 2015 Loan matures over a 25-year period and the bank has the option to call the bonds after ten years (February 12, 2025). The interest rate is currently fixed at 4.214% for ten years, after which it will reset at the then current rate.

In July 2013, Devereux entered into an agreement with a bank to borrow \$9,000 in variable-rate debt (the 2013 Loan) that was used to currently refund the 1995 New York and 1997 New Jersey Bonds and finance certain capital expenditures. The 2013 Loan, as amended, matures over a 15-year period; however, on July 1, 2025, the bank has the option to call the bonds. Concurrent

8. Long-Term Debt (continued)

with the 2013 Loan, Devereux entered into a 15-year interest rate swap with a notional amount of $8,393 that effectively fixes the interest rate at 5.030%. A loss on early extinguishment of debt of $121, composed of the write-off of the unamortized issuance costs and original issue discount, was recorded in 2014 and is included as a component of excess of revenue over expenses.

The 2012 Pennsylvania and 2012 Colorado Bonds were issued to refinance previously issued tax-exempt debt. All of the bonds were acquired by a financial institution. The bonds mature over a 15-year period and the financial institution has an option to call the bonds after seven years (November 1, 2019). The 2012 Pennsylvania and 2012 Colorado Bonds bear interest at a fixed rate, subject to a rate reset if the bonds are not called by the financial institution.

The 2011 Pennsylvania Bonds were issued to refinance previously issued tax-exempt debt. All of the bonds were acquired by a financial institution. The 2011 Pennsylvania Bonds bear interest at a variable rate equal to 65.00% of the one-month London Interbank Offered Rate (LIBOR), plus a margin of 1.40%. The rate on the bonds at June 30, 2015, was 1.52%. The bonds mature over a 15½-year period, and the financial institution has an option to call the bonds after seven years (December 15, 2018).

The 2006 Pennsylvania Bonds were issued to refinance previously issued tax-exempt debt, finance certain capital expenditures, and fund a debt service reserve.

All of the tax-exempt bonds and the 2013 and 2015 Loans were issued under a Master Trust Indenture (MTI) for which Devereux, HD Foundation, DCW, and DCW Foundation are members of the obligated group and were issued to advance, refund, or refinance previously issued tax-exempt bonds and other debt, to finance certain capital expenditures, and to fund required debt service and reserve funds. They are secured by an interest in gross revenues, as defined, as well as mortgages on certain properties.

The original issue discounts and premiums on the bonds are being amortized using the interest method over the term of the related debt.

Agreements related to the Revolving Credit Agreement (see Note 9) and the debt issued under the MTI, contain financial covenants requiring Devereux to maintain debt service coverage and liquidity ratios. All such covenants were complied with at June 30, 2015 and 2014.

(In Thousands)

8. Long-Term Debt (continued)

Other information relating to each of the bonds, all of which have serial and term components, is as follows:

	2015 Loan	2013 Loan	2012 Pennsylvania Bonds
Annual principal payment	Monthly	July 1	November 1
Year of final maturity	2040	2028	2028
Range of principal and/or sinking fund payments	\$38 to \$308	\$429 to \$769	\$521 to \$674
Interest payment dates	Monthly	Monthly	May 1 and November 1
Range of interest rates	4.214%	5.03%	2.15%

	2012 Colorado Bonds	2011 Pennsylvania Bonds	2006 Pennsylvania Bonds
Annual principal payment	November 1	May 1 and November 1	November 1
Year of final maturity	2028	2027	2031
Range of principal and/or sinking fund payments	\$167 to \$787	\$391 to \$454	\$945 to \$1,915
Interest payment dates	May 1 and November 1	May 1 and November 1	May 1 and November 1
Range of interest rates	2.28%	Variable	5.00% to 5.25%

(In Thousands)

8. Long-Term Debt (continued)

Scheduled maturities of all long-term debt for the next five years and thereafter ending June 30 are as follows:

2016	$	3,725
2017		3,869
2018		3,979
2019		4,046
2020		6,648
Thereafter		40,310

Interest paid on all indebtedness amounted to $3,203 and $2,847 in 2015 and 2014, respectively.

Fair Value

Devereux uses quoted market prices in estimating the fair value of the revenue bonds and the outstanding mortgage obligations' carrying value approximates the fair value. The fair value of the long-term debt at June 30, 2015 and 2014, is $63,604 and $62,201, respectively, and was determined using the market approach under ASC 820, *Fair Value Measurement*, using Level 2 inputs within the fair value hierarchy.

9. Note Payable

Devereux has a bank Revolving Credit Agreement (Revolver) for $39,300, which is available for working capital and letters of credit. The term of the Revolver is through November 30, 2015. The Revolver is secured by a parity lien on gross revenues and by mortgages on certain Devereux properties, as defined under the MTI (see Note 8). As of June 30, 2015 and 2014, under the Revolver, interest on working capital loans is computed at the one-month LIBOR rate plus an applicable margin of 1.00%. At June 30, 2015 and 2014, no working capital loans were outstanding. At June 30, 2015, letters of credit aggregating $10,080 were outstanding, substantially all of which were used to secure deductibles under insurance policies (see Note 14). Fees on outstanding letters of credit accrue at 1.00% at June 30, 2015 and 2014. A commitment fee of 0.25% is paid on unused revolver amounts.

9. Note Payable (continued)

Devereux entered into a financing agreement, as amended, with a bank providing advances up to an aggregate amount of $4,000 that expires on December 31, 2015. The loans are for the purpose of acquiring and renovating real property at various locations in the state of New Jersey, to be used as group homes for intellectually and developmentally disabled individuals. Loan advances initially bear interest at the prime rate, and within 90 days are converted to amortizing term loans with a term of either five, seven, or ten years at the election of Devereux. Principal is paid in monthly installments based on a 25-year amortization, and bears interest at the following rates: for a five- or a seven-year term: the Federal Home Loan Bank (FHLB) rate plus 225 basis points; or for a ten-year term: the FHLB rate plus 250 basis points. The loans are secured by first mortgage liens on the properties financed. A commitment fee of 0.25% is paid on the unused amount. At June 30, 2015 and 2014, there was $3,036 and $3,135, respectively, in outstanding loans that are included in the mortgages payable total in Note 8.

10. Obligation to Provide Future Services and the Use of Facilities to Continuing Care Clients

Devereux is contractually obligated to provide care for life to certain clients. The obligation, which recognizes the future costs to be incurred under these continuing care contracts, was computed using the following assumptions for 2015 and 2014: annual cost of care based on actual operating costs, life expectancy based on 1959–61 U.S. Life Tables, an inflation factor base of 4.75% for 2015 and 2014 of the average annual operating cost, an interest yield of 6.00% for 2015 and 2014, and a reduction for any supplemental payments to be received from the clients. The obligation is further reduced to the extent Devereux receives Social Security (assumed to increase at an annual rate of 3.00% for 2015 and 2014) or other benefits on behalf of the clients.

As of June 30, 2015, there were 23 individuals covered by continuing care contracts.

Devereux also recognizes the present value of certain arrangements with several continuing care residents under which Devereux is the beneficiary of the assets of trusts established on behalf of the residents.

(In Thousands)

10. Obligation to Provide Future Services and the Use of Facilities to Continuing Care Clients (continued)

The present value of the components of the obligation follows:

	June 30	
	2015	**2014**
Gross liability	**$ 19,085**	$ 22,441
Social Security and other benefits	**(7,987)**	(8,195)
Future trust interests	**(3,821)**	(7,642)
	$ 7,277	$ 6,604

11. Retirement Plan

Devereux has a defined contribution retirement plan covering all eligible employees, which is administered by the Teachers Insurance and Annuity Association. To be eligible for an employer contribution, an employee must have completed two years of service, work a minimum of 1,000 hours annually, and be active at the end of the plan year (December 31). Contributions to the plan are generally based on 5% of the employee's compensation, plus a match of employee contributions up to 2% of compensation. These contributions are credited to individual annuity contracts owned by each participant and are charged to expense when earned. Contribution expense was $7,764 and $7,796 in 2015 and 2014, respectively.

12. Temporarily Restricted Net Assets

Temporarily restricted net assets are available for the following purposes:

	June 30	
	2015	**2014**
Purchase of property and equipment	**$ 529**	$ 622
Behavioral health care and education services	**4,170**	3,602
Research	**795**	910
Other	**1,715**	1,718
For future periods	**6,341**	6,893
	$ 13,550	$ 13,745

(In Thousands)

12. Temporarily Restricted Net Assets (continued)

During 2015 and 2014, $2,565 and $2,866, respectively, of temporarily restricted net assets were released from restrictions for operations, of which $320 and $657, respectively, related to the collection of previous pledges, which are classified as a component of unrestricted gifts and bequests in the consolidated statements of operations and changes in net assets.

13. Permanently Restricted Net Assets

Activity in Devereux's permanently restricted net assets is as follows:

	June 30	
	2015	**2014**
Endowment balance at beginning of year	**$ 7,684**	$ 7,381
Investment income return:		
Investment income	**159**	138
Realized and unrealized (losses) gains	**(169)**	635
Total investment income return	**(10)**	773
Contributions	**3**	5
Appropriation of endowment assets for intended purpose	**(490)**	(475)
Endowment balance at end of year	**$ 7,187**	$ 7,684

(In Thousands)

14. Commitments and Contingencies

Operating Leases

Devereux leases various equipment and facilities under operating leases expiring at various dates through 2024. Total rent expense for the years ended June 30, 2015 and 2014, was $8,838 and $7,853, respectively. The following is a schedule by year of future minimum lease payments under operating leases as of June 30, 2015, that have initial or remaining lease terms in excess of one year.

Year ending June 30:		
2016	$	6,315
2017		4,225
2018		2,384
2019		861
2020		586
Thereafter		577
	$	14,948

Workers' Compensation

Devereux maintains workers' compensation insurance with a per-claim deductible of $750 for 2015 and 2014. Due to this level of retention, Devereux maintains $1,707 of cash on deposit with its insurers for the payment of future claims, which is included in operating fund investments in the consolidated balance sheets. Additionally, Devereux is required to post letters of credit of $10,080 as collateral for its obligations as of June 30, 2015 and 2014 (see Note 9). Based upon historical loss experience, management determined that a $15,080 and $15,008 liability for the estimated retention and costs of claims not settled as of June 30, 2015 and 2014, respectively, be recorded as a component of reserves under insurance programs and other liabilities in the consolidated balance sheets.

14. Commitments and Contingencies (continued)

Professional and General Liability

Devereux is insured under a claims-made policy for professional liability and an occurrence policy for general liability. Devereux retained $8,000 for 2015 and 2014 in aggregate deductibles ($4,000 for any individual claims) related to the combination of professional and general liability coverage. Due to this level of retention, Devereux is required to post $4,000 of collateral, which was met with an insurance trust holding treasury securities valued at $4,630 as of June 30, 2015. Based upon historical loss experience, management determined that a $5,189 and $4,731 liability for the estimated retention and cost of claims and incidents not settled as of June 30, 2015 and 2014, respectively, be recorded as a component of reserves under insurance programs and other liabilities in the consolidated balance sheets. Devereux plans to continue to obtain adequate professional and general liability insurance.

Litigation

Devereux and DCW are contingently liable in connection with certain claims and contracts arising in the normal course of their activities. After consultation with legal counsel, management believes these matters will be resolved without a material adverse effect on Devereux's future financial position or results from operations.

Devereux is not a party to, nor are any of its properties the subject of, any material, pending legal proceedings other than ordinary, routine litigation incidental to the business.

15. Acquisitions

In 2015, Devereux acquired all of the fixed assets and operations of two organizations, one of which is located in Rhode Island and the other in Florida, both of whom provide behavioral health services similar to Devereux. In accordance with authoritative guidance the assets and liabilities of these organizations were recorded at fair value. The fair value of the net assets acquired exceeded the consideration paid by Devereux in the amount of $834. This excess in fair value over consideration paid was recorded in the accompanying consolidated financial statements within unrestricted net assets and temporarily restricted net assets in the amounts of $662 and $172, respectively. During the year ended June 30, 2015, these operations added $3,523 to net client revenue and $3,018 to total property and equipment.

Florida Single Audit

The Devereux Foundation and Controlled Entities

Schedule of Expenditures of State Financial Assistance

Year Ended June 30, 2015

State Agency Name State Project Title Contract Use	Contracts	CSFA Number	Expenditures
HEARTLAND FOR CHILDREN	CMA0901	60.074	$ 1,398,796
KIDS CENTRAL	CPA1101	60.074	163,034
COMMUNITY BASED CARE OF CENTRAL FLORIDA	KDXMS1	60.074	91,427
COMMUNITY BASED CARE OF CENTRAL FLORIDA	C1415-PRV-D031	60.074	235,436
COMMUNITY PARTNERSHIP FOR CHILDREN	OROS003-1314	60.074	4,802
CHILDREN'S NETWORK OF SOUTHWEST FLORIDA	OROS007-1415	60.074	638
Total Indirect Funding 60.074			1,894,133
KIDS CENTRAL	C1415-DVR-D031	60.075	189,652
KIDS CENTRAL	C1415-PRV-D031	60.075	164,914
COMMUNITY BASED CARE OF CENTRAL FLORIDA	SEMOROS003-1415	60.075	169,801
Total Indirect Funding 60.075			524,367
COMMUNITY BASED CARE OF CENTRAL FLORIDA	SEMOROS006-1415	60.076	33,959
COMMUNITY BASED CARE OF CENTRAL FLORIDA	SEMOROS003-1415	60.076	21,900
Total Indirect Funding 60.076			55,859
COMMUNITY BASED CARE OF CENTRAL FLORIDA	SEMOROS003-1415	60.112	6,875
Total Indirect Funding 60.112			6,875
COMMUNITY BASED CARE OF CENTRAL FLORIDA	SEMOROS003-1415	60.138	310,637
HEARTLAND FOR CHILDREN	KDXMS1	60.138	155,569
DEVEREUX COMMUNITY BASED CARE OF OKEECHOBEE	DCBC318	60.138	825,027
BREVARD FAMILY PARTNERSHIP	OHC RA-1401	60.138	90,720
CHILDNET	DEV13EFC	60.138	444,960
Total Indirect Funding 60.138			1,826,913
Total Expenditures of State Financial Assistance			$ 4,308,147

See accompanying notes.

1. Basis of Presentation

The accompanying schedule of expenditures of state financial assistance includes the state financial assistance project activity of The Devereux Foundation and Controlled Entities (Devereux) and is presented on the accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of Section 215.97, *Florida Statutes,* and Chapter 10.650, *Rules of the Auditor General.*

2. Contingency

Project expenditures are subject to audit and adjustment. If any expenditure were to be disallowed by the grantor agency as a result of such an audit, any claim for reimbursement to the grantor agency would become a liability of Devereux. In the opinion of management, all state financial assistance project expenditures included on the accompanying schedule are in compliance with the terms of the project agreements and applicable state laws and regulations.

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Report of Independent Auditors on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of the Financial Statements Performed in Accordance With *Government Auditing Standards*

The Board of Trustees
The Devereux Foundation and Controlled Entities

We have audited, in accordance with auditing standards generally accepted in the United States and the standards applicable to financial audits contained in *Government Auditing Standards,* issued by the Comptroller General of the United States, the consolidated financial statements of The Devereux Foundation and Controlled Entities (Devereux), which comprise the consolidated balance sheets as of June 30, 2015 and 2014, and the related consolidated statements of operations and changes in net assets and cash flows for the years then ended and the related notes to the consolidated financial statements, and have issued our report thereon dated September 21, 2015.

Internal Control Over Financial Reporting

In planning and performing our audit of the consolidated financial statements, we considered Devereux's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the consolidated financial statements, but not for the purpose of expressing an opinion on the effectiveness of Devereux's internal control. Accordingly, we do not express an opinion on the effectiveness of Devereux's internal control.

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. 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.

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

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Compliance and Other Matters

As part of obtaining reasonable assurance about whether Devereux's consolidated 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*.

Purpose of This Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the result of that testing, and not to provide an opinion on the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Ernst + Young LLP

September 21, 2015

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Report of Independent Auditors on Compliance for Each Major State Financial Assistance Project and Report on Internal Control Over Compliance Required by Section 215.97, *Florida Statutes*, and Chapter 10.650, *Rules of the Auditor General*

The Board of Trustees
The Devereux Foundation and Controlled Entities

Report on Compliance for Each Major State Financial Assistance Project

We have audited The Devereux Foundation and Controlled Entities' (Devereux) compliance with the types of compliance requirements described in the Executive Office of the Governor's State Projects Compliance Supplement that could have a direct and material effect on each of Devereux's major state financial assistance projects for the year ended June 30, 2015. Devereux's major state financial assistance projects are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with the requirements of laws, regulations, contracts, and grants applicable to its state financial assistance projects.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of Devereux's major state financial assistance projects based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States; the standards applicable to financial audits contained in *Government Auditing Standards,* issued by the Comptroller General of the United States; Section 215.97, *Florida Statutes;* and Chapter 10.650, *Rules of the Auditor General.* Those standards and Section 215.97, *Florida Statutes,* 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 state financial assistance project occurred. An audit includes examining, on a test basis, evidence about Devereux's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major state financial assistance project. However, our audit does not provide a legal determination of Devereux's compliance.

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Opinion on Each Major State Financial Assistance Project

In our opinion, Devereux complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major state financial assistance projects for the year ended June 30, 2015.

Report on Internal Control Over Compliance

Management of Devereux is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered Devereux's internal control over compliance with the types of requirements that could have a direct and material effect on each major state financial assistance project to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major state financial assistance project and to test and report on internal control over compliance in accordance with Section 215.97, *Florida Statutes,* 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 Devereux's internal control over compliance.

A *deficiency in internal control over compliance* exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a state financial assistance project 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 state financial assistance project will not be prevented, or detected and corrected, on a timely basis. A *significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a state financial assistance project that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

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

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the Executive Office of the Governor's State Projects Compliance Supplement. Accordingly, this report is not suitable for any other purpose.

Ernst + Young LLP

December 18, 2015

The Devereux Foundation and Controlled Entities

Schedule of Findings and Questioned Costs

Year Ended June 30, 2015

Section I – Summary of Auditor's Results

Financial Statements Section

Type of auditor's report issued:	Unmodified
Internal control over financial reporting:	
Material weaknesses identified?	___ Yes _X_ No
Significant deficiencies identified?	___ Yes _X_ None reported
Noncompliance material to financial statements noted?	___ Yes _X_ No

State Financial Assistance Section

Internal control over major projects:	
Material weaknesses identified?	___ Yes _X_ No
Significant deficiencies identified?	___ Yes _X_ None reported
Type of auditor's report issued on compliance for major projects:	Unmodified
Any audit findings disclosed that are required to be reported in accordance with Section 215.97, *Florida Statutes,* and Chapter 10.650, *Rules of the Auditor General*?	___ Yes _X_ No

Identification of major projects:

CSFA Number	Name of State Project
60.074	Out-of-Home Supports
60.075	In-Home Supports
60.138	Sexually Exploited Children

Dollar threshold used to distinguish between Type A and Type B projects: $300,000

Section II – Financial Statement Findings Section

No significant deficiencies; material weaknesses; fraud; noncompliance with provisions of laws, regulations, contracts, and grant agreements, and abuse related to the consolidated financial statements were identified that are required to be reported under *Government Auditing Standards.*

Section III – Federal Award Findings and Questioned Costs Section

No significant deficiencies, material weaknesses and material instances of noncompliance, including questioned costs, as well as any abuse findings involving state financial assistance that are material to a major project as required to be reported by Section 215.97, *Florida Statutes*, and Chapter 10.650, *Rules of the Auditor General*, were identified in the current year.

Supplementary Information

The Devereux Foundation and Controlled Entities

Schedule of Functional Expenses

Year Ended June 30, 2015

Expense Categories A	Inpatient (Viera) B_{1-a}	Residential LV 1 (RTC) B_{1-b}	Residential LV 2 R&B w/ Supervision (lv 2-3 % (a)) B_{1-c}	Residential LV 2 (STFC-L2) B_{1-e}	Residential LV 3 (STFC-L1) B_{1-f}	Residential LV 3 (TFC) B_{1-g}	Prevention B_{1-h}	Outpatient B_{1-i}	Case Management B_{1-j}	Total for State SAMH- Funded Cost Centers (B1-a+...+B1-x) D	Total for All State- Designated SAMH Cost Centers (D+E) F	Non-SAMH Cost Center G	Administration I	Total Expenses (F+G+H*+I*) J
IIA. Personnel expenses														
(1) Salaries	$ 11,633,526	$ 2,560,814	$ 995,724	$ 376,842	$ 339,977	$ 1,843,249	$ 2,208,440	$ 2,062,133	$ 7,022,865	$ 29,043,570	$ 29,043,570	$ 3,654,357	$ 3,130,452	$ 35,828,379
(2) Fringe benefits	3,403,604	741,650	321,148	109,740	99,004	536,769	604,096	395,883	1,928,747	8,140,641	8,140,641	853,105	846,608	$ 9,840,354
Total personnel expenses	15,037,130	3,302,464	1,316,872	486,582	438,981	2,380,018	2,812,536	2,458,016	8,951,612	37,184,211	37,184,211	4,507,462	3,977,060	45,668,733
IIB. Other expenses														
(1) Building occupancy	906,031	309,389	199,992	45,062	40,654	220,411	169,064	123,604	517,616	2,531,822	2,531,822	274,075	495,969	3,301,866
(2) Professional services	1,077,184	455,769	19,721	232,223	209,506	1,135,875	186,634	590,966	401,488	4,309,367	4,309,367	229,338	273,644	4,812,349
(3) Travel	33,484	6,595	956	1,319	1,190	6,454	13,940	1,960	45,572	111,470	111,470	45,901	100,190	257,561
(4) Equipment	748,766	201,636	61,008	5,183	4,676	25,351	27,399	22,685	56,966	1,153,669	1,153,669	131,094	196,968	1,481,731
(5) Food services	512,907	180,536	41,265	136	123	668	10,174	1,052	2,320	749,180	749,180	112,089	5,916	867,185
(6) Medical and pharmacy	586,404	226,182	3,429	4,067	3,669	19,892	67,314	34	90	911,081	911,081	4,687	–	915,768
(7) Subcontracted services														–
(8) Insurance	206,483	47,628	19,629	10,346	9,334	50,605	23,906	20,445	90,212	478,587	478,587	43,762	9,044	531,393
(9) Interest paid	197,316	19,736	6,797	3,224	2,909	15,771	12,303	12,418	39,231	309,705	309,705	59,662	4,600	373,967
(10) Operating supplies and expenses	449,615	90,878	34,465	1,066	962	5,214	21,735	3,828	5,794	613,557	613,557	81,272	14,229	709,058
(11) Other	896,804	230,498	83,811	40,143	36,216	196,354	191,004	149,619	593,427	2,417,877	2,417,877	444,353	(352,686)	2,509,544
(12) Donated items	–	–	–	–	–	–	–	–	–	–	–	–	–	–
Total other expenses	5,614,994	1,768,847	471,073	342,769	309,239	1,676,595	723,473	926,611	1,752,716	13,586,315	13,586,315	1,426,233	747,874	15,760,422
Total personnel and other expenses	20,652,124	5,071,311	1,787,945	829,351	748,220	4,056,613	3,536,009	3,384,627	10,704,328	50,770,526	50,770,526	5,933,695	4,724,934	61,429,155
IIC. Distributed indirect costs														
(a) Other support costs (optional)	1,594,145	377,899	140,674	70,461	63,568	344,647	289,373	274,628	807,993	3,963,388	3,963,388	413,555	(4,376,943)	–
(b) Administration	947,289	231,691	82,142	38,319	34,570	187,429	162,541	156,392	490,505	2,330,879	2,330,879	255,493	27,950	2,614,322
Total distributed indirect costs	2,541,434	609,590	222,816	108,780	98,138	532,076	451,914	431,020	1,298,498	6,294,267	6,294,267	669,048	(4,348,993)	2,614,322
Total projected operating expenses	23,193,558	5,680,901	2,010,761	938,131	846,358	4,588,689	3,987,923	3,815,647	12,002,826	57,064,793	57,064,793	6,602,743	375,941	64,043,477
IID. Unallowable costs	234,000	99,000	12,000	16,074	14,502	78,624	–	115,200	–	569,400	569,400	40,500	–	609,900
IIE. Total SAMH lines of credit equivalent	–	–	–	–	–	–	–	–	–	–	–	–	–	–
Total allowable projected operating expenses	$ 22,959,558	$ 5,581,901	$ 1,998,761	$ 922,057	$ 831,856	$ 4,510,065	$ 3,987,923	$ 3,700,447	$ 12,002,826	$ 56,495,393	$ 56,495,393	$ 6,362,243	$ 375,941	$ 63,433,577

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