

CIRCLES OF CARE, INC.

**FINANCIAL STATEMENTS AND
SUPPLEMENTARY INFORMATION**

As of and for the year ended June 30, 2016

and

INDEPENDENT AUDITOR'S REPORT

CIRCLES OF CARE, INC.
MELBOURNE, FLORIDA

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*Stephen A. Ellis, Shareholder
Todd M. Russell, Shareholder
Donna L. Young, Director*

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*Floyd C. Lemmon
Robert E. Andersen, Jr.*

INDEPENDENT AUDITOR'S COMBINED REPORT ON THE BASIC FINANCIAL STATEMENTS AND SUPPLEMENTARY INFORMATION

Board of Directors
Circles of Care, Inc.
Melbourne, Florida

Report on the Financial Statements

We have audited the accompanying financial statements of Circles of Care, Inc. (CoC), (a nonprofit organization), which comprise the balance sheet as of June 30, 2016, and the related statements of operations and changes in net assets, and cash flows for the year then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the 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 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 principles used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of financial statements.

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of CoC as of June 30, 2016, and the results of its operations and changes in net assets, and cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Other Matters

Supplementary Information

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The accompanying schedule of expenditures of federal awards and state financial assistance is presented for purposes of additional analysis, as required by U.S. Office of Management and Budget Circular A-133, "Audits of States, Local Governments, and Non-Profit Organizations," and the Rules of the Florida Department of Financial Services. The accompanying schedules of revenues, program/cost center actual expenses and revenues, state earnings for alcohol, drug abuse, and mental health services - match calculation, bed-day availability payments, and related party transactions adjustments are required by the Florida Department of Children and Families. These schedules are presented for purposes of supplementary analysis, and are not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements, and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report, dated December 20, 2016, on our consideration of CoC's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering CoC's internal control over financial reporting and compliance.



Davies, Houser & Secrest, CPA, P.A.
Cocoa, Florida
December 20, 2016

FINANCIAL STATEMENTS

CIRCLES OF CARE, INC.

BALANCE SHEET

June 30, 2016

ASSETS

Current assets:	
Cash and cash equivalents	\$ 10,826,198
Investments	10,136,050
Patient accounts receivable, net of allowances for contractual adjustments and uncollectible accounts of \$2,420,035	1,400,580
Inventories, other receivables, and prepaid items	<u>5,022,573</u>
Total current assets	<u>27,385,401</u>
Assets limited as to use:	
Internally designated for renewal and replacement	8,000,000
Interest in charitable remainder trust	41,000
Beneficial interest in perpetual trust	<u>564,067</u>
Total assets limited as to use	<u>8,605,067</u>
Property and equipment, at cost or fair market value, if donated, net of accumulated depreciation:	
Land	1,077,500
Buildings and improvements	5,737,035
Furniture and equipment	883,841
Construction-in-progress	171,391
Land and buildings not used in operations	<u>2,101,324</u>
Property and equipment, at depreciated cost	<u>9,971,091</u>
Total assets	<u>\$ 45,961,559</u>

The accompanying notes are an integral part of this financial statement.

LIABILITIES AND NET ASSETS

Current liabilities:	
Accounts payable	\$ 339,403
Accrued payroll, payroll taxes, and vested leave	2,455,765
Accrued liabilities - other	2,331,712
Current portion of bonds payable	<u>276,658</u>
Total current liabilities	5,403,538
Long-term debt:	
Bonds payable	4,411,727
Obligations under cash flow hedges (Note 9)	<u>32,000</u>
Total liabilities	<u>9,847,265</u>
Contingencies and commitments (Note 8)	
Net assets:	
Unrestricted	35,509,227
Temporarily restricted	41,000
Permanently restricted	<u>564,067</u>
Total net assets	<u>36,114,294</u>
Total liabilities and net assets	 <u>\$ 45,961,559</u>

The accompanying notes are an integral part of this financial statement.

CIRCLES OF CARE, INC.

STATEMENT OF OPERATIONS AND CHANGES IN NET ASSETS

For the year ended June 30, 2016

Changes in unrestricted net assets:	
Revenues and support:	
Net patient service revenue (Notes 12 and 13)	\$ 19,510,962
Government contracts and other support:	
State Mental Health Contract	12,098,075
Medicaid	678,864
Other government funding	1,804,507
Other support	477,071
Contributions	39,012
Pharmacy	<u>6,892,334</u>
	41,500,825
Rental income	595,838
Investment income	<u>396,105</u>
Total unrestricted revenues and support	<u>42,492,768</u>
Expenses:	
Salaries and employee benefits	24,088,637
Other operating expenses	<u>15,146,063</u>
Total expenses	<u>39,234,700</u>
Excess of revenues, gains, and other support over expenses	3,258,068
Change in net unrealized gains and losses on other than trading securities	(282,846)
Gain on derivative investments	<u>32,000</u>
Increase in unrestricted net assets	<u>3,007,222</u>
Change in permanently restricted net assets:	
Decrease in permanently restricted net assets	<u>(32,955)</u>
Change in permanently restricted net assets	(32,955)
Change in net assets	2,974,267
Net assets at beginning of year	<u>33,140,027</u>
Net assets at end of year	<u>\$ 36,114,294</u>

The accompanying notes are an integral part of this financial statement.

CIRCLES OF CARE, INC.

STATEMENT OF CASH FLOWS
For the year ended June 30, 2016

Cash flows from operating activities:	
Cash received from patients	\$ 18,356,082
Cash received from state contracts and other support	15,032,579
Cash received from pharmacy	5,618,528
Cash received from rents	595,838
Interest and dividends received	467,222
Cash paid to suppliers and employees	(35,612,931)
Interest paid	(192,605)
	<hr/>
Net cash provided by operating activities	4,264,713
	<hr/>
Cash flows from investing activities:	
Payments for acquisition of assets	(417,128)
Proceeds from sale and maturities of assets	5,053,096
Purchase of investments	(5,499,739)
	<hr/>
Net cash used in investing activities	(863,771)
	<hr/>
Cash flows from financing activities:	
Principal payments of long-term debt	(264,902)
	<hr/>
Net cash used in financing activities	(264,902)
	<hr/>
Net increase in cash and cash equivalents	3,136,040
Cash and cash equivalents at beginning of year	7,690,158
	<hr/>
Cash and cash equivalents at end of year	\$ <u><u>10,826,198</u></u>

The accompanying notes are an integral part of this financial statement.

Reconciliation of change in net assets to net cash provided by operating activities:

Change in net assets	\$ <u>2,974,267</u>
Adjustments to reconcile change in net assets to net cash provided by operating activities:	
Depreciation and amortization	768,767
Net realized and unrealized gains on sale of investments on other than trading securities	353,963
Gain on derivative investments	(32,000)
Change in assets and liabilities:	
Decrease in patient accounts receivable	42,120
Decrease in inventories, other receivables, and prepaid items	222,937
Decrease in accounts payable	(38,651)
Increase in accrued payroll, payroll taxes, and vested leave	92,628
Decrease in accrued liabilities - other	<u>(119,318)</u>
Total adjustments	<u>1,290,446</u>
Net cash provided by operating activities	\$ <u><u>4,264,713</u></u>

The accompanying notes are an integral part of this financial statement.

CIRCLES OF CARE, INC.

NOTES TO FINANCIAL STATEMENTS
As of and for the year ended June 30, 2016

NOTE 1 - REPORTING ENTITY

Circles of Care, Inc. (CoC) is a local mental healthcare system operating in Brevard County, Florida. The organization provides a full range of mental health services to the residents of Brevard County (the County), including an inpatient psychiatric facility, a crisis stabilization unit, outpatient counseling services, and many other mental health services for children and adults.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Basis of Accounting

CoC prepares its financial statements in accordance with guidelines established in the American Institute of Certified Public Accountants Audit and Accounting Guide, "Health Care Organizations."

B. Display of Net Assets by Class

The accompanying financial statements have been prepared in conformity with the disclosure and display requirements set forth in the "Not-for-Profit Entities" topic of the Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC). Accordingly, the net assets of CoC are reported in each of the following three classes: unrestricted net assets, temporarily restricted net assets, and permanently restricted net assets. The nature of the restrictions results from donor-imposed restrictions; otherwise, the assets are unrestricted. CoC has elected to report donor-restricted contributions, whose restrictions are met in the same reporting period, as unrestricted support. In addition, CoC is required to present a statement of cash flows.

C. Contributions

As set forth in the "Not-for-Profit Entities" topic of the FASB ASC, CoC records contributions received as unrestricted, temporarily restricted, or permanently restricted support depending on the existence and nature of any donor restrictions. In the absence of donor-imposed time restrictions on the use of the assets, gifts of long-lived assets are reported as unrestricted support. Program and time-restricted contributions are required to be reported as temporarily restricted support and then reclassified to unrestricted net assets upon expiration of the restrictions.

D. Net Patient Service Revenue

Net patient service revenue is reported at estimated net realizable amounts from patients, third-party payers, and others, excluding Medicaid, for services rendered, including estimated retroactive adjustments under reimbursement agreements with third-party payers. Retroactive adjustments are accrued on an estimated basis in the period the related services are rendered and adjusted in future periods, as final settlements are determined. A retroactive Medicare adjustment is included in net patient service revenue for the year ended June 30, 2016 (see Note 8).

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

E. Allowance for Doubtful Accounts

Management determines an allowance for doubtful accounts based on age-weighted collection percentages, historical collection experience, and source of payment for services rendered (i.e. private-pay patients, Medicaid, Medicare, and other third-party payers). Private-pay receivables are charged off when payment options are exhausted. All account balances are reserved 90% once they exceed 180 days.

F. Charity Care

CoC identifies charity care patients using the same criteria used by the State of Florida Agency for Health Care Administration. It is the policy of CoC that a patient, whose income does not exceed 150% of the current federal poverty guidelines, will be classified as a charity care patient. Additionally, if the patient's total charges exceed 25% of the patient's annual income, the patient will be classified as a charity care patient, unless the patient's income exceeds four times the federal poverty level for a family of four. Because CoC does not pursue collection of amounts determined to qualify as charity care, such amounts are not reported as gross patient service revenue.

G. Property and Equipment

Property and equipment acquisitions in excess of \$1,000 are recorded at cost, including capitalized interest, if purchased or constructed, and estimated fair market value, if donated.

Depreciation is computed on the straight-line basis for all depreciable assets. Depreciation expense for the year ended June 30, 2016, was \$768,767. Expected useful lives for various asset classes are as follows:

Buildings and improvements	10 - 40 years
Furniture and equipment	5 - 10 years
Other assets	3 - 10 years

H. Contributions

Donated services are recorded at fair market value as contributions and capital additions when either of the following conditions is met.

- The donated services create or enhance nonfinancial assets (such as a building).
- The donated services are provided by entities that normally provide specialized services for compensation and those services are normally purchased by CoC.

Donations of property and equipment are recorded as support at their estimated fair value. Such donations are reported as unrestricted support, unless the donor has restricted the donated asset to a specific purpose. Assets donated with explicit restrictions regarding their use and contributions of cash that must be used to acquire property and equipment are reported as restricted support. Absent donor stipulations regarding how long those donated assets must be maintained, CoC reports expirations of donor restrictions when the donated or acquired assets are placed in service as instructed by the donor. CoC reclassifies temporarily restricted net assets to unrestricted net assets at that time.

I. Income Taxes

CoC is exempt from federal income taxes under Section 501(c)(3) of the Internal Revenue Code as a charitable organization. Federal informational returns are subject to examination by the IRS, generally three years after they are filed.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

J. Cash Flows

For the purposes of the statement of cash flows, CoC considers all highly liquid debt instruments purchased with maturities of three months or less to be cash equivalents. Cash and cash equivalents, which are part of assets limited by the Board of Directors, are not considered to be cash or cash equivalents for purposes of the cash flows presentation.

K. Inventories

Inventories consist of pharmaceuticals and medical supplies and are stated at the lower of cost or market determined by the first-in, first-out method.

L. Investments and Investment Income

As set forth in the "Not-for-Profit Entities" topic of the FASB ASC, subtopic "Investments - Debt and Equity," investments in all debt securities and equity securities with readily determinable fair values are reported at fair value in the balance sheet. Investments, other than debt and equity securities with readily determinable fair values, are reported at cost, if purchased, or estimated at fair value at the date of the gift, if donated. Investment income or loss (including realized gains and losses on investments, interest, and dividends) is included in the excess of revenues, gains, and other support over expenses, unless the income or loss is restricted by the donor or a law. Unrealized gains and losses on investments are excluded from the excess of revenues, gains, and other support over expenses, unless the investments are trading securities.

M. 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 disclosures of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. Accordingly, actual results could differ from those estimates.

NOTE 3 - PROPERTY AND EQUIPMENT

	<u>Cost</u>	<u>Accumulated Depreciation</u>	<u>Net</u>
Land	\$ 1,077,500	\$ 0	\$ 1,077,500
Buildings and improvements	15,402,270	9,665,235	5,737,035
Furniture and equipment	3,173,205	2,289,364	883,841
Construction-in-progress	171,391	0	171,391
Land and buildings not used in operations	<u>2,101,324</u>	<u>0</u>	<u>2,101,324</u>
	<u>\$21,925,690</u>	<u>\$11,954,599</u>	<u>\$ 9,971,091</u>

The federal government and the State of Florida have imposed certain use restrictions on a portion of property and equipment. The net value of the restrictions is \$125,248 for the year ended June 30, 2016.

NOTE 4 - INVESTMENTS

A. Assets Internally Designated for Renewal and Replacement

The composition of assets whose use is internally designated for future asset renewal and replacement at June 30, 2016, is set forth in the following table. Marketable debt and equity securities are stated at fair market value. Assets internally designated for renewal and replacement include \$120,000 for future potential losses due to uninsured windstorm damage.

Cash and cash equivalents	\$ 393,830
Marketable debt securities	1,023,644
Marketable equity securities	<u>6,582,526</u>
	<u>\$ 8,000,000</u>

B. Investments

Certificates of deposit	\$ 1,741,654
Marketable debt securities	1,225,665
Marketable equity securities	<u>7,168,731</u>
	<u>\$ 10,136,050</u>

Investment income and gains from assets limited as to use, cash equivalents, and investments, net of investment custodial and advisory fees of \$44,644, for fiscal year ended June 30, 2016, are comprised of the following:

Income:

Interest and dividend income	\$ 467,222
Realized losses on sale of securities	<u>(71,117)</u>
	<u>\$ 396,105</u>

Other changes in unrestricted net assets:

Change in net unrealized losses on other than trading securities	<u>\$ (282,846)</u>
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NOTE 5 - FAIR VALUE MEASUREMENTS

FASB ASC 820-10-20 defines fair value as “the exit price that would be received to sell an asset or paid to transfer a liability in the principal or most advantageous market in an orderly transaction between market participants on the measurement date.” FASB ASC 820-10-50 requires investments to be grouped into three categories, based on certain criteria as noted below.

Level 1: Fair value is determined by using quoted prices for identical assets or liabilities in active markets.

Level 2: Fair value is determined by using other than quoted prices that are observable for the asset or liability (e.g., quoted prices for identical assets or liabilities in inactive markets, quoted prices for similar assets or liabilities in active markets, observable inputs other than quoted prices, and inputs derived principally from or corroborated by observable market data by correlation or other means).

Level 3: Fair value is determined by using inputs based on management assumptions that are not directly observable.

NOTE 5 - FAIR VALUE MEASUREMENTS (continued)

Fair values of assets measured on a recurring basis at June 30, 2016, are as follows:

	Fair Value Measurements at Reporting Date Using			
	Fair Value	Quoted Price in Active Markets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Certificates of deposit	\$ 1,741,654	\$ 1,741,654	\$ 0	\$ 0
Marketable debt securities	2,249,309	2,249,309	0	0
Marketable equity securities	13,751,257	13,751,257	0	0
Beneficial interest in perpetual trust	564,067	564,067	0	0
Interest in charitable remainder trust	<u>41,000</u>	<u>0</u>	<u>0</u>	<u>41,000</u>
Total investments	<u>\$ 18,347,287</u>	<u>\$ 18,347,287</u>	<u>\$ 0</u>	<u>\$ 41,000</u>

Management values the interest in a charitable remainder trust as the present value of the estimated future benefit (see Note 14).

NOTE 6 - LAND AND LAND IMPROVEMENT DONATIONS - ASSETS UNDER CAPITAL LEASE

Land with an estimated market value of \$400,000 was given to CoC for the site of the South County facility. Under the terms of a bond/lease agreement with the County, the land had been deeded to the County for the term of the lease. After all required lease payments were made, the title to the land, along with any existing facility, reverted to CoC.

During the construction period, the County provided certain paving and land improvements for the South County facility at a cost to the County of \$142,262. These costs were donated to CoC and have been included as buildings and improvements.

On May 27, 2009, CoC entered into a lease with the City of Melbourne Airport Authority (the Authority) on approximately 3.16 acres of land with a right of first refusal on adjacent land. Under the agreement, CoC received a deferral of lease payments, as it constructed the new facility and obtained a certificate of occupancy. The term of the lease is for 40 years, beginning with the date construction was completed, with two five-year options to renew. The initial annual base rent, for the first ten years, is \$68,774, payable in equal monthly installments of \$5,731. No base rent was payable during the construction period and the Authority waived 50% of the base rent for the first 12 months after the rent commencement date. After an initial 10-year period, the base rent will be increased based on changes to the Consumer Price Index every five years. At the end of the lease term, the improvements erected on the property shall become the property of the Authority.

NOTE 6 - LAND AND LAND IMPROVEMENT DONATIONS - ASSETS UNDER CAPITAL LEASE (continued)

Minimum future rental payments under operating leases, which have remaining non-cancelable lease terms in excess of one year, for each of the succeeding five years are as follows:

For the years ending June 30:	
2017	\$ 68,774
2018	68,774
2019	68,774
2020	68,774
2021	<u>68,774</u>
Total	<u>\$ 343,870</u>

Lease expense recorded under the land lease agreement was \$68,744, for the year ended June 30, 2016.

NOTE 7 - INTEREST EXPENSE

The total interest expense of \$192,605, paid in 2016, represents interest incurred on the bonds issued by the County and other debt associated with capital acquisitions and improvements placed in service in prior years. This interest was paid from earnings on limited use investments and unrestricted revenue.

NOTE 8 - CONTINGENCIES AND COMMITMENTS

A. Medicare Reimbursement

Revenue received under the Medicare reimbursement agreement is subject to audit and retroactive adjustment by the Medicare intermediary agency. Management records additional receivables and payables relating to Medicare based on the Medicare Cost Reimbursement reports. The retroactive Medicare adjustments are reported in net patient service revenue in the year in which the funds are paid out or received. All Medicare reports, for the years ended June 30, 2015, and prior, have been audited or subjected to a desk review and final settlements have been determined.

B. Pending Litigation

As is common in the healthcare industry, CoC is in the process of defending a number of lawsuits. Counsel has advised management that, at this stage of the proceedings, they cannot offer an opinion as to the probable outcome of these cases. Management believes the suits hold little merit and is vigorously defending its position.

C. Concentration of Credit Risk

CoC places its temporary cash investments with financial institutions. The amount of credit exposure in excess of federally insured limits was \$10,996,993, at June 30, 2016.

NOTE 8 - CONTINGENCIES AND COMMITMENTS (continued)

D. Self-insurance

CoC has decided to discontinue the windstorm portion of its property coverage and to self-insure against future loss. This decision was made in response to rapidly escalating premiums, higher deductibles, and undesirable upgrade requirements on certain facilities. Coupled with the decision to discontinue windstorm coverage, CoC has also decided to terminate business interruption coverage, due to its inability to collect on this portion of insurance coverage in the past. The decision to discontinue these types of coverage and opt for self-insurance reflects a growing trend among both for-profit and non-profit entities throughout the State of Florida, as obtaining affordable, cost effective coverage becomes increasingly more difficult.

As a result of these decisions, management, in consultation with the Board of Directors, has decided to designate \$120,000 as a reserve for potential uninsured future losses as of June 30, 2016. It is management's intent to continue to add to this reserve until such time it feels the potential loss is reasonably covered.

E. Beneficial Interest in Perpetual Trust

CoC became an income beneficiary of the Mildred Ziegenhein Trust. CoC is one of three charitable beneficiaries who are named to receive the income earned from a combination of income and growth investments. The market value of CoC's share of the trust at June 30, 2016, was \$564,067, a drop of \$32,955 from June 30, 2015, and has been recorded as permanently restricted net assets due to its perpetual nature. As of June 30, 2016, \$116,517 of these funds was invested in marketable debt securities; \$363,322 was invested in marketable equity securities; \$20,477 was invested in hedge funds; \$37,343 was invested in other investments; and \$26,408 was invested in cash and cash equivalents.

NOTE 9 - BONDS PAYABLE

Concurrent with the negotiation of the land lease (see Note 6), CoC entered into a commitment for financing with Bank of America (the Bank), for the purpose of financing the acquisition, construction, and equipping of a new 30-bed healthcare facility to be utilized as an involuntary mental health treatment facility authorized pursuant to Chapter 394, Part I, Florida Statutes (commonly known as "Baker Act Crisis Stabilization Unit"); renovation of the existing healthcare facilities at 400 E. Sheridan Road, Melbourne, Florida; and payment of issuance costs of the financing agreement. Collectively, these undertakings are referred to as the Project.

Under this commitment, CoC was entitled to borrow up to \$6.75 million, not to exceed the lower of the appraised value or 75% of the cost of the subject property, collateralized by new and existing real estate facilities and a first security interest on personal property of the borrower. The terms of the loan were interest only for 12 months, then principal and interest, payable monthly based on a 240-month mortgage style amortization, with the loan to be repaid in full on every fifth anniversary of the closing. Interest was payable at 63.702% of the 30-day LIBOR, plus 200 basis points, with an option to swap the floating rate option for the tax-exempt term loan to an effective fixed rate based on market conditions.

Subsequent to the execution of the land lease and commitment for financing, CoC entered into a revised financing agreement with the Bank and the City of Melbourne, Florida (the City), in which the City issued, and the Bank agreed to purchase, \$5 million of Series 2009A and \$1 million of Series 2009B Revenue Bonds (the Series 2009A and B Bonds).

On October 29, 2009, the terms of the Series 2009A and B Bonds were finalized and the bond agreements executed. Both the Series 2009A and B Bonds are subject to the terms and conditions of a loan agreement, mortgage, and promissory note between CoC and the City.

NOTE 9 - BONDS PAYABLE (continued)

Under the terms of the mortgage, CoC agreed to various covenants and granted a security interest in its assets and rights to revenue. CoC is prohibited from incurring any future indebtedness, above certain specified limitations, under the terms of the agreement.

Upon the issuance of the Series 2009A and B Bonds, the Bank agreed to purchase them in a private placement in exchange for an assignment of the loan agreement, mortgage, and promissory note. The terms of the agreement stipulate that all amounts advanced by the Bank to the City, pursuant to the bond purchase agreements, are deemed to be simultaneously loaned by the City to CoC, so that the amount of the loan equals the aggregate amount advanced by the Bank. Under the terms of the note, CoC promises to pay the Bank, as assignee of the City, the principal advanced, plus accrued interest on such principal.

The terms of the Series 2009A Bonds were interest only until October 31, 2010, payable at 63.702% of the 30-day LIBOR, plus 200 basis points. Equal monthly installments of principal, based on a 240-month mortgage life, plus accrued interest, commenced November 1, 2010.

The terms of the Series 2009B Bonds were interest only until October 31, 2010, payable at the 30-day LIBOR, plus 195 basis points. Equal monthly installments of principal, based on a 240-month mortgage life, plus accrued interest, commenced November 1, 2010.

For so long as the Series 2009A and B Bonds are owned by the same registered owner, any additional payment of principal made by the City (or CoC on its behalf), with respect to the Series 2009A and B Bonds, shall be deemed a payment of principal on the Series 2009B Bonds until such time the Series 2009B Bonds shall have been paid in full.

CoC retains the option to swap the floating rate to a tax-exempt term loan effective fixed rate, based on market conditions. Unless the Bank, in its sole and absolute discretion, determines otherwise, the principal amount and all accrued and unpaid interest shall be subject to mandatory prepayment on every fifth anniversary of the commencement date.

On June 29, 2009, CoC executed an interest rate swap with the Bank on \$1 million of the available funding under the commitment for financing. The interest rate swap was effective July 1, 2010, and matured July 1, 2014. Under the terms of the swap, the Bank received a fixed interest rate of 4.5% and paid the same 63.702% of the 30-day LIBOR, plus 200 basis points, provided for in the commitment for financing, thus effectively converted \$1 million of the available variable rate debt to a fixed 4.5% mortgage.

On October 2, 2009, CoC executed a second interest rate swap with the Bank on an additional \$2 million of the available funding under the commitment for financing. The second interest rate swap was effective July 1, 2010, and matured July 1, 2014. Under the terms of the swap, the Bank received a fixed interest rate of 4.1% and paid the same 63.702% of the 30-day LIBOR, plus 200 basis points, provided for in the commitment for financing, thus converted \$2 million of the available variable rate debt to a fixed 4.1% mortgage.

On November 16, 2009, CoC executed a third interest rate swap with the Bank on an additional \$1.5 million of the available funding under the revised financing agreement. The third interest rate swap was effective July 1, 2010, and matured July 1, 2014. Under the terms of the swap, the Bank received a fixed interest rate of 4.02% and paid the same 63.702% of the 30-day LIBOR, plus 200 basis points, provided for in the revised financing agreement, thus converted \$1.5 million of the available variable rate debt to a fixed 4.02% mortgage.

All the interest rate swap agreements noted above were designated by management as fair value hedging instruments and are deemed to be 100% effective. In entering the swaps, it was management's intention to limit exposure to future increases in interest rates from their historic lows. Taken together, the three executed swaps have converted \$4.5 million of variable rate loan

NOTE 9 - BONDS PAYABLE (continued)

commitment to fixed rate mortgages, with a weighted average interest rate of 4.16%. On June 19, 2013, CoC executed a loan agreement with the Bank to refinance the existing debt with a variable rate loan payable at the 30-day LIBOR, plus 170 basis points. CoC simultaneously swapped the variable rate for a fixed rate mortgage with a 3.92% interest rate. The mortgage holders have established certain covenants to which CoC must comply. As of June 30, 2016, CoC was in compliance with these covenants.

During the year ended June 30, 2016, a gain of \$32,000 was recognized on these designated and qualifying fair value hedging instruments. Since there is no ineffective portion of hedging instruments, no gain or loss has been excluded from the assessment of hedge effectiveness.

As of June 30, 2013, CoC had borrowed \$4,991,361, through the Series 2009A Bonds and \$1 million through the Series 2009B Bonds under the revised financing agreement. Since the swap agreements went into effect as of July 1, 2010, repayment of the advances under the original commitment for financing and revised financing agreement commenced during the year ended June 30, 2011. Repayments on the Series 2009A Bonds were \$196,028, for the year ended June 30, 2016. Repayments on the Series 2009B Bonds were \$68,873, for the year ended June 30, 2016.

The repayment of the advances, under the original commitment for financing and revised financing agreement, have been determined in accordance with the payments due under the swap agreements.

Series 2009A and B Bonds payable are collateralized by security interest in assets and rights to revenue. Terms and conditions are described above.

Bonds payable	\$4,688,385
Less amount due within one year	<u>276,658</u>
Long-term portion	<u>\$4,411,727</u>

Estimated maturities of the Series 2009A and B Bonds, for each of the succeeding five years and in the aggregate, are as follows:

	<u>Series</u> <u>2009A</u>	<u>Series</u> <u>2009B</u>	<u>Total</u>
Fiscal years ending June 30:			
2017	\$ 204,727	\$ 71,931	\$ 276,658
2018	212,082	75,789	287,871
2019	221,487	79,161	300,648
2020	231,315	82,673	313,988
2021	241,580	86,342	327,922
2022 and thereafter	<u>2,920,264</u>	<u>261,033</u>	<u>3,181,297</u>
Total	<u>\$ 4,031,455</u>	<u>\$ 656,929</u>	<u>\$ 4,688,384</u>

NOTE 10 - MALPRACTICE INSURANCE PLAN

CoC has a claims-made professional liability insurance policy that provides coverage for all medical malpractice claims made subsequent to January 1, 1987, and reported to the insurance carrier. Coverage limits under this policy are \$1,000,000, per occurrence, and \$5,000,000 aggregate for all claims under the policy. Losses from asserted claims and unasserted claims identified under CoC's incident reporting system are accrued, along with other losses not

NOTE 10 - MALPRACTICE INSURANCE PLAN (continued)

identified by the system. This accrual is based on past experience, as well as other considerations, including the nature of each claim or incident and relevant trend factors. The reserves for such losses are \$120,000, as of June 30, 2016.

NOTE 11 - RESTRICTED NET ASSETS

Included in temporarily restricted net assets is the present value of future gifts, as fully explained in Note 14. The future gifts are valued at \$41,000, for the fiscal year ended June 30, 2016.

Included in permanently restricted net assets is the beneficial interest in the Ziegenhein Trust (see Note 8).

NOTE 12 - NET PATIENT SERVICE REVENUE

Gross patient service revenue is recorded on the accrual basis in the period in which services are provided at established rates. Contractual and policy adjustments are recorded as deductions from gross patient service revenue to determine net patient service revenue. Net Medicaid revenue is required to be reported separately.

Net patient service revenue consists of the following:

Gross patient service revenue	\$ 44,881,533
Less provisions for contractual and policy adjustments and Medicaid	<u>25,370,571</u>
Net patient service revenue	<u>\$ 19,510,962</u>

NOTE 13 - CHARITY CARE

The amount of charges forgone for services and supplies, furnished under the charity care policy of CoC, was \$14,961,000, for the fiscal year ended June 30, 2016.

NOTE 14 - FUTURE GIFTS

CoC has been named the remainder beneficiary of a charitable remainder trust. As set forth in the "Not-for-Profit Entities" topic of the FASB ASC, the interest in the trust has been recorded at the present value of the estimated future benefits to be received when the trust terminates and CoC receives the remaining trust assets. This interest has been valued at \$41,000, as of June 30, 2016. In addition, CoC has been named as a contingent remainderman by another charitable remainder trust. However, since the trust cannot be valued with any certainty at this time, no amount has been included in these financial statements.

NOTE 15 - PENSION

CoC sponsors a defined contribution pension plan that covers substantially all employees. The pension plan is funded by CoC contributions and voluntary employee contributions. There are no unfunded past service costs associated with the pension plan. Pension expenses were \$1,593,935, for the fiscal year ended June 30, 2016.

NOTE 16 - SUPPORT FROM THE STATE OF FLORIDA WHICH REQUIRED MATCH

CoC received a substantial portion of its support from Central Florida Cares Health System, Inc. (CFCHS) under a grant contract with DCF's Alcohol, Drug Abuse, and Mental Health Program. This contract is renegotiated annually and a maximum amount is established during the negotiation process so that income is earned on a unit of service basis. That is, income can be recognized only to the extent to which eligible services are performed. The contract required a 25% local match for certain community mental health services. The matching requirement has been fulfilled for the year ended June 30, 2016.

As of July 1, 2012, DCF amended and assigned the contract between DCF and CoC to CFCHS, in order to implement the requirements of Section 394.9082, Florida Statutes, and reflect the appropriations approved by the Florida Legislature for the state fiscal year ended June 30, 2013. Currently, CoC has the ability to appoint one individual to the Board of Directors of CFCHS, but it does not possess control over the actions and decisions of CFCHS. Under the contract, CFCHS (a behavioral health administrative and management organization) serves as the managing entity and, as such, is assigned all of DCF's rights, powers, duties, and obligations under the contract and relieves DCF of all responsibilities, duties, and obligations for performance under the contract. It is believed that the assignment of the contract to CFCHS will assure continuity in the delivery of service and is considered a transitional measure until a more permanent contractual relation is established between CFCHS and CoC.

NOTE 17 - DONATED SERVICES AND GOODS

CoC received in-kind pharmaceuticals from drug manufacturers to assist with the treatment of patients at CoC. The goods were valued at \$990,000, for the fiscal year ended June 30, 2016. Donated pharmaceuticals valued at \$936,766, have been included in inventory, as of June 30, 2016.

NOTE 18 - PROGRAM, ADMINISTRATION, AND FUNDRAISING EXPENSES

CoC expended the following amounts on program, administration, and fundraising expenses for the fiscal year ended June 30, 2016:

Program	\$ 37,088,183
Administration	2,146,517
Fundraising	<u>0</u>
Total	<u>\$ 39,234,700</u>

NOTE 19 - SUBSEQUENT EVENTS

CoC has evaluated subsequent events through December 20, 2016, the date which the financial statements were available to be issued.

SUPPLEMENTARY INFORMATION

CIRCLES OF CARE, INC.

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
AND STATE FINANCIAL ASSISTANCE
For the year ended June 30, 2016

Employer Identification Number: 59-1101553

<u>Grantor/Pass-through Grantor/Program Title</u>	<u>CFDA/ CSFA Number</u>	<u>Pass-through Entity and/ or Contract Number</u>	<u>Program or Award Amount</u>	<u>Amounts Expended</u>
Federal awards passed through from the Central Florida Cares Health System, Inc.:				
U.S. Department of Health and Human Services:				
Block Grants for Prevention and Treatment of Substance Abuse	93.959	COC16	\$1,725,818	\$ 1,725,818
Block Grants for Community Mental Health Services	93.958	COC16	\$749,874	749,874
Support Our Students Program	93.558	COC16	\$133,119	133,119
Projects for Assistance in Transition from Homelessness	93.150	COC16	\$100,728	<u>100,728</u>
Total expenditures of federal awards				<u>2,709,539</u>
State of Florida assistance:				
Passed through from the Florida Department of Health:				
Tobacco Prevention Community Program	64.093	COTES	\$228,760	228,760
Passed through from the Central Florida Cares Health System, Inc.:				
Community Forensic Beds and Competency Restoration Training	60.114	COC16	\$46,583	46,583
SAMH - Community Services	60.142	COC16	\$402,614	402,614
SAMH - Crisis Prevention & Stabilization	60.144	COC16	\$970,000	970,000
Children's Action Team for Mental Health	60.150	GH5C1	\$750,000	750,000
SAMH - Community Services	60.155	TH506	\$82,386	<u>82,386</u>
Total expenditures of state financial assistance				<u>2,480,343</u>
Total expenditures of federal awards and state financial assistance				<u>\$ 5,189,882</u>

Amounts expended were determined in accordance with generally accepted accounting principles (accrual basis), less depreciation, plus capital additions, if any. There were no noncash amounts included in amounts expended.

CIRCLES OF CARE, INC.

SCHEDULE OF REVENUES
For the year ended June 30, 2016

State SAMH grants:	
Adult community mental health	\$ 7,440,434
Adult substance abuse	2,779,733
Children's mental health	680,478
Children's substance abuse	369,044
CAT program	750,000
Cedar Village	<u>82,386</u>
Total state SAMH grants	<u>12,102,075</u> (1)
Other government funding:	
Local government	1,804,507
Medicaid	678,864
Other state grants	<u>228,760</u>
Total other government funding	<u>2,712,131</u>
All other funding and revenues:	
Medicare	4,941,182
First- and third-party fees	14,569,780 (2)
Contributions and donations	39,012
In-kind expenditures	990,000
Investment revenue	113,259
Rental revenue	595,338
Pharmacy revenue	5,902,334
Other	<u>280,811</u>
Total nongovernment funding	<u>27,431,716</u>
Total all funding and revenues	<u>\$ 42,245,922</u>

(1) Includes \$4,000 in pass-through revenue for the Drop-in Center, not included in the statement of operations and changes in net assets.

(2) Includes a grossed-up amount of \$1,197,000, which is offset in the statement of operations and changes in net assets by \$1,197,000 of bad debt expense.

CIRCLES OF CARE, INC.

PROGRAM/COST CENTER ACTUAL EXPENSES AND REVENUES
For the year ended June 30, 2016

Adult Mental Health

FUNDING SOURCES & REVENUES	Incidental Expenses	Medical Outpatient	Case Management	Crisis Stabilization	Room & Board Sup II	Room & Board Sup III	Drop-in Center
Total state SAMH funding:							
District Seven funding (1)	\$ 63,512	\$ 740,684	\$ 253,396	\$ 3,252,628	\$ 1,412,249	\$ 675,438	\$ 24,000
Other government funding:							
Other state funding	0	0	0	0	0	0	0
Medicaid	0	83,051	0	0	0	0	0
Local government	0	257,783	0	1,000,565	0	0	0
Federal government	0	0	0	0	0	0	0
In-kind (local government)	0	0	0	0	0	0	0
Total other government funding	0	340,834	0	1,000,565	0	0	0
All other funding and revenues:							
Net first-party fees (2)	0	199,670	0	59,873	0	0	0
Net third-party fees (except Medicare) (2)	0	1,139,402	0	2,541,069	0	0	0
Medicare (2)	0	225,451	0	0	0	0	0
Donations and contributions	0	0	0	0	0	0	0
Other revenue	0	202,374	0	45,660	379,399	530,540	0
In-kind	0	851,400	0	0	0	0	0
Total nongovernment funding	0	2,618,297	0	2,646,602	379,399	530,540	0
Total all funding and revenues	\$ 63,512	\$ 3,699,815	\$ 253,396	\$ 6,899,795	\$ 1,791,648	\$ 1,205,978	\$ 24,000
EXPENSE CATEGORIES							
Personnel expenses:							
Salaries and contractual services	\$ 8,253	\$ 1,658,794	\$ 185,692	\$ 3,024,745	\$ 715,720	\$ 218,888	\$ 17,627
Fringe benefits	2,392	262,627	54,674	861,799	267,514	125,980	5,842
Total personnel expenses	10,645	1,921,421	240,366	3,886,544	983,234	344,868	23,469
Operating expenses:							
Building occupancy	2,339	90,125	49,694	461,575	223,541	109,621	1,335
Professional services	419	133,773	8,907	216,298	5,058	2,813	117
Travel	640	33,698	13,594	28,948	3,056	901	10
Food services	0	296	1,212	288,218	87,971	96,418	227
Medical and pharmacy	44,485	243,888	0	214,018	94,267	146,794	0
Subcontract services	0	0	0	0	0	0	4,000
Insurance	419	99,642	8,897	99,929	24,611	19,674	544
Interest	0	11,810	0	135,101	247	393	0
Operating supplies	537	99,810	11,412	179,533	67,615	27,086	859
Equipment costs	0	3,877	8,949	5,709	20,795	13,206	5
Donated items	0	851,400	0	0	0	0	0
HMO expense	0	0	0	0	0	0	0
Other (1)	0	0	0	0	0	0	0
Total operating expenses	48,839	1,568,319	102,665	1,629,329	527,161	416,906	7,097
Total personnel and operating expenses	59,484	3,489,740	343,031	5,515,873	1,510,395	761,774	30,566
Distributed indirect cost:							
Administration	3,612	259,278	20,829	334,929	91,712	46,256	1,856
Total allowable operating expenses	63,096	3,749,018	363,860	5,850,802	1,602,107	808,030	32,422
Unallowable costs	916	846,043	5,285	84,985	23,271	11,737	471
Total actual operating expenses	\$ 64,012	\$ 4,595,061	\$ 369,145	\$ 5,935,787	\$ 1,625,378	\$ 819,767	\$ 32,893
Capital expenditures	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0

(1) Includes \$4,000 in pass-through revenue and expense for the Drop-in Center, not included in the statement of operations and changes in net assets.

(2) Net of bad debts of \$1,197,000.

<u>Inpatient</u>	<u>Crisis Support</u>	<u>Outreach</u>	<u>Outpatient Individual</u>	<u>Outpatient Group</u>	<u>Total AMH</u>
\$ 545,325	\$ 449,967	\$ 17,352	\$ 5,338	\$ 545	\$ 7,440,434
0	0	0	0	0	0
0	0	0	0	0	83,051
100,000	163,333	0	0	0	1,521,681
0	0	0	0	0	0
0	0	0	0	0	0
100,000	163,333	0	0	0	1,604,732
0	0	0	0	0	259,543
0	0	0	0	0	3,680,471
0	0	0	0	0	225,451
0	0	0	0	0	0
0	0	0	0	0	1,157,973
0	0	0	0	0	851,400
0	0	0	0	0	6,174,838
\$ 645,325	\$ 613,300	\$ 17,352	\$ 5,338	\$ 545	\$ 15,220,004
\$ 567,066	\$ 451,635	\$ 21,846	\$ 11,265	\$ 16,898	\$ 6,898,429
176,667	119,647	6,432	3,936	5,904	1,893,414
743,733	571,282	28,278	15,201	22,802	8,791,843
76,787	7,395	5,846	1,058	1,587	1,030,903
82,171	2,463	1,048	115	172	453,354
3,716	6,340	1,599	75	112	92,689
63,437	808	143	77	115	538,922
59,542	0	0	0	0	802,994
0	0	0	0	0	4,000
28,008	12,159	1,047	483	725	296,138
7,281	0	0	71	107	155,010
36,494	14,918	1,343	844	1,266	441,717
2,268	230	1,053	1	1	56,094
0	0	0	0	0	851,400
0	0	0	0	0	0
0	0	0	0	0	0
359,704	44,313	12,079	2,724	4,085	4,723,221
1,103,437	615,595	40,357	17,925	26,887	13,515,064
90,790	37,379	2,451	1,088	1,633	891,813
1,194,227	652,974	42,808	19,013	28,520	14,406,877
522,536	9,484	622	276	414	1,506,040
\$ 1,716,763	\$ 662,458	\$ 43,430	\$ 19,289	\$ 28,934	\$ 15,912,917
\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0

CIRCLES OF CARE, INC.

PROGRAM/COST CENTER ACTUAL EXPENSES AND REVENUES
For the year ended June 30, 2016
(continued)

FUNDING SOURCES & REVENUES	Children's Mental Health			Adult Substance Abuse			
	Crisis Stabilization	Crisis Support	Total CMH	Residential Level IV	Residential Level I	Detox	Crisis Support
Total state SAMH funding:							
District Seven funding (1)	\$ 630,478	\$ 50,000	\$ 680,478	\$ 52,044	\$ 840,420	\$ 1,379,465	\$ 256,917
Other government funding:							
Other state funding	0	0	0	0	0	0	0
Medicaid	0	0	0	0	0	0	0
Local government	210,159	16,667	226,826	0	0	0	0
Federal government	0	0	0	0	0	0	0
In-kind (local government)	0	0	0	0	0	0	0
Total other government funding	210,159	16,667	226,826	0	0	0	0
All other funding and revenues:							
Net first-party fees (2)	41,106	0	41,106	0	3,920	8,414	0
Net third-party fees (except Medicare) (2)	1,877,973	0	1,877,973	0	52,630	754,007	0
Medicare (2)	0	0	0	0	0	0	0
Donations and contributions	0	0	0	25,000	0	0	0
Other revenue	15,605	0	15,605	1,555	5,025	8,341	0
In-kind	0	0	0	0	0	0	0
Total nongovernment funding	1,934,684	0	1,934,684	26,555	61,575	770,762	0
Total all funding and revenues	\$ 2,775,321	\$ 66,667	\$ 2,841,988	\$ 78,599	\$ 901,995	\$ 2,150,227	\$ 256,917
EXPENSE CATEGORIES							
Personnel expenses:							
Salaries and contractual services	\$ 800,315	\$ 86,794	\$ 887,109	\$ 85,065	\$ 490,411	\$ 741,351	\$ 159,832
Fringe benefits	247,349	22,993	270,342	29,833	161,362	243,970	42,342
Total personnel expenses	1,047,664	109,787	1,157,451	114,898	651,773	985,321	202,174
Operating expenses:							
Building occupancy	71,010	1,421	72,431	22,600	54,946	83,492	2,617
Professional services	42,820	473	43,293	563	8,120	12,339	872
Travel	1,035	1,218	2,253	388	983	1,494	2,244
Food services	66,345	155	66,500	688	74,670	113,463	286
Medical and pharmacy	44,157	0	44,157	0	14,608	23,426	0
Subcontract services	0	0	0	0	0	0	0
Insurance	31,277	2,337	33,614	6,714	17,169	26,089	4,303
Interest	11	0	11	0	1,611	2,449	0
Operating supplies	43,970	2,867	46,837	5,679	35,603	54,100	5,280
Equipment costs	107	44	151	3,270	606	920	81
Donated items	0	0	0	0	0	0	0
HMO expense	0	0	0	0	0	0	0
Other (2)	0	0	0	0	0	0	0
Total operating expenses	300,732	8,515	309,247	39,902	208,316	317,772	15,683
Total personnel and operating expenses	1,348,396	118,302	1,466,698	154,800	860,089	1,303,093	217,857
Distributed indirect cost:							
Administration	86,867	7,183	94,050	9,400	52,602	80,004	13,228
Total allowable operating expenses	1,435,263	125,485	1,560,748	164,200	912,691	1,383,097	231,085
Unallowable costs	104,247	1,823	106,070	2,386	19,550	202,353	3,357
Total actual operating expenses	\$ 1,539,510	\$ 127,308	\$ 1,666,818	\$ 166,586	\$ 932,241	\$ 1,585,450	\$ 234,442
Capital expenditures	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0

(1) Includes \$4,000 in pass-through revenue and expense for the Drop-in Center, not included in the statement of operations and changes in net assets.

(2) Net of bad debts of \$1,197,000.

Adult Substance Abuse					Children Substance Abuse		
Prevention	Assessment	Outpatient Individual	Outpatient Group	Total ASA	Detox	Prevention	Total CSA
\$ 219,354	\$ 1,912	\$ 3,463	\$ 26,158	\$ 2,779,733	\$ 192,367	\$ 176,677	\$ 369,044
0	0	0	0	0	0	0	0
0	0	0	0	0	0	1,420	1,420
0	0	0	0	0	0	0	0
0	0	0	0	0	0	0	0
0	0	0	0	0	0	0	0
0	0	0	0	0	0	1,420	1,420
0	0	0	0	12,334	2,301	77,648	79,949
0	0	0	0	806,637	98,008	11,333	109,341
0	0	0	0	0	0	2,895	2,895
0	0	0	0	25,000	0	0	0
0	0	0	0	14,921	2,498	0	2,498
0	0	0	0	0	0	0	0
0	0	0	0	858,892	102,807	91,876	194,683
\$ 219,354	\$ 1,912	\$ 3,463	\$ 26,158	\$ 3,638,625	\$ 295,174	\$ 269,973	\$ 565,147
\$ 143,231	\$ 5,632	\$ 16,898	\$ 22,529	\$ 1,664,949	\$ 79,969	\$ 117,190	\$ 197,159
48,834	1,968	5,904	7,873	542,086	25,428	39,956	65,384
192,065	7,600	22,802	30,402	2,207,035	105,397	157,146	262,543
26,563	529	1,587	2,116	194,450	7,759	21,733	29,492
840	57	172	229	23,192	4,679	688	5,367
2,484	37	112	150	7,892	113	2,033	2,146
579	38	115	153	189,992	7,249	474	7,723
8,341	0	0	0	46,375	5,532	6,824	12,356
0	0	0	0	0	0	0	0
5,169	242	725	967	61,378	3,417	4,230	7,647
0	36	107	143	4,346	1	0	1
10,784	422	1,266	1,688	114,822	4,804	8,824	13,628
78	0	1	1	4,957	12	43	55
0	0	0	0	0	0	0	0
0	0	0	0	0	0	0	0
0	0	0	0	0	0	0	0
54,838	1,361	4,085	5,447	647,404	33,566	44,849	78,415
246,903	8,961	26,887	35,849	2,854,439	138,963	201,995	340,958
14,992	544	1,633	2,177	174,580	9,534	12,265	21,799
261,895	9,505	28,520	38,026	3,029,019	148,497	214,260	362,757
3,805	139	414	552	232,556	20,464	3,112	23,576
\$ 265,700	\$ 9,644	\$ 28,934	\$ 38,578	\$ 3,261,575	\$ 168,961	\$ 217,372	\$ 386,333
\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0

CIRCLES OF CARE, INC.

PROGRAM/COST CENTER ACTUAL EXPENSES AND REVENUES
For the year ended June 30, 2016
(continued)

FUNDING SOURCES & REVENUES	CAT Program	Cedar Village	Total for State SAMH Funded	Total for Non-state Funded SAMH	Total for All State Designated SAMH	Administrative	Total Revenues
Total state SAMH funding:							
District Seven funding (1)	\$ 750,000	\$ 82,386	\$ 12,102,075	\$ 0	\$ 12,102,075	\$ 0	\$ 12,102,075
Other government funding:							
Other state funding	0	0	0	228,760	228,760	0	228,760
Medicaid	0	0	84,471	594,393	678,864	0	678,864
Local government	0	0	1,748,507	56,000	1,804,507	0	1,804,507
Federal government	0	0	0	0	0	0	0
In-kind (local government)	0	0	0	0	0	0	0
Total other government funding	0	0	1,832,978	879,153	2,712,131	0	2,712,131
All other funding and revenues:							
Net first-party fees (2)	0	0	392,932	201,841	594,773	0	594,773
Net third-party fees (except Medicare) (2)	0	0	6,474,422	6,303,585	12,778,007	0	12,778,007
Medicare (2)	0	0	228,346	4,712,836	4,941,182	0	4,941,182
Donations and contributions	0	0	25,000	14,012	39,012	0	39,012
Other revenue	0	22,534	1,213,531	5,678,211	6,891,742	0	6,891,742
In-kind	0	0	851,400	138,600	990,000	0	990,000
Total nongovernment funding	0	22,534	9,185,631	17,049,085	26,234,716	0	26,234,716
Total all funding and revenues	\$ 750,000	\$ 104,920	\$ 23,120,684	\$ 17,928,238	\$ 41,048,922	\$ 0	\$ 41,048,922
EXPENSE CATEGORIES							
Personnel expenses:							
Salaries and contractual services	\$ 385,728	\$ 132,116	\$ 10,165,490	\$ 5,789,881	\$ 15,955,371	\$ 1,413,952	\$ 17,369,323
Fringe benefits	107,738	50,940	2,929,904	1,842,868	4,772,772	287,161	5,059,933
Total personnel expenses	493,466	183,056	13,095,394	7,632,749	20,728,143	1,701,113	22,429,256
Operating expenses:							
Building occupancy	37,307	44,351	1,408,934	494,866	1,903,800	219,345	2,123,145
Professional services	23,229	906	549,341	975,077	1,524,418	8,471	1,532,889
Travel	19,899	500	125,379	53,444	178,823	58,069	236,892
Food services	1,261	17,598	821,996	218,687	1,040,683	13,141	1,053,824
Medical and pharmacy	599	0	906,481	4,921,821	5,828,302	4,788	5,833,090
Subcontract services	0	0	4,000	0	4,000	0	4,000
Insurance	12,270	4,477	415,524	212,044	627,568	46,995	674,563
Interest	0	0	159,368	33,237	192,605	0	192,605
Operating supplies	32,065	12,548	661,617	465,197	1,126,814	91,841	1,218,655
Equipment costs	0	3,810	65,067	25,583	90,650	2,752	93,402
Donated items	0	0	851,400	138,600	990,000	0	990,000
HMO expense	0	0	0	0	0	0	0
Other (2)	0	0	0	0	0	0	0
Total operating expenses	126,630	84,190	5,969,107	7,538,556	13,507,663	445,402	13,953,065
Total personnel and operating expenses	620,096	267,246	19,064,501	15,171,305	34,235,806	2,146,515	36,382,321
Distributed indirect cost:							
Administration	75,000	16,227	1,273,469	873,046	2,146,515	(2,146,515)	0
Total allowable operating expenses	695,096	283,473	20,337,970	16,044,351	36,382,321	0	36,382,321
Unallowable costs	62,329	4,118	1,934,689	921,690	2,856,379	0	2,856,379
Total actual operating expenses	\$ 757,425	\$ 287,591	\$ 22,272,659	\$ 16,966,041	\$ 39,238,700	\$ 0	\$ 39,238,700
Capital expenditures	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0

(1) Includes \$4,000 in pass-through revenue and expense for the Drop-in Center, not included in the statement of operations and changes in net assets.

(2) Net of bad debts of \$1,197,000.

CIRCLES OF CARE, INC.

SCHEDULE OF STATE EARNINGS FOR ALCOHOL,
 DRUG ABUSE, AND MENTAL HEALTH SERVICES - MATCH CALCULATION
 For the year ended June 30, 2016

Total expenditures	\$ 38,883,061
Less:	
Medicaid and other state and federal funds	(678,864)
No-match ADM funds	(2,127,114)
Unallowable costs per 65E-14, FAC	<u>(2,856,379)</u>
Total allowable expenditures	<u>\$ 33,220,704</u>
Total amount of state earnings (\$33,220,704 x 75%)	<u>\$ 24,915,528</u>
Amount of state performance contract funds received, excluding non-match portion	<u>\$ 9,974,961</u>
Amount due to department	<u>\$ 0</u>

CIRCLES OF CARE, INC.

SCHEDULE OF BED-DAY AVAILABILITY PAYMENTS
For the year ended June 30, 2016

Program A	Cost Center B	State Contracted Rate C	Total Units of Service Provided D	Total Units of Service Paid for Third-party Contracts, Local Gov't. or Other State Agencies E	Maximum Number of Units Eligible for Payment by Department (D - E) F	Amount Paid for Services by the Department G	Maximum \$ Value of Units in Column F (F x C) H	Amount Owed to Department (G-H or \$0, whichever is greater) I
CMH	Crisis Stabilization	\$372	4,745	2,016	2,729	\$630,478	\$1,015,188	\$0
AMH	Crisis Stabilization	\$372	18,250	3,070	15,180	\$3,252,628	\$5,646,960	\$0
ASA	Detox	\$253	7,300	979	6,321	\$1,379,465	\$1,599,213	\$0
CSA	Detox	\$253	1,095	223	872	\$192,367	\$220,616	\$0
Total Amount Owed to Department =								\$0

CIRCLES OF CARE, INC.

SCHEDULE OF RELATED PARTY TRANSACTIONS ADJUSTMENTS
For the year ended June 30, 2016

There were no related party transactions adjustments during the year ended June 30, 2016.



DAVIES, HOUSER & SECREST, CPA, P.A.

Shareholders/Directors

Stephen A. Ellis, Shareholder
Todd M. Russell, Shareholder
Donna L. Young, Director

Directors Emeritus

Floyd C. Lemmon
Robert E. Andersen, Jr.

INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

Board of Directors
Circles of Care, Inc.
Melbourne, Florida

We have audited, 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, the financial statements of Circles of Care, Inc. (CoC), (a nonprofit organization), which comprise the balance sheet as of June 30, 2016, and the related statements of operations and changes in net assets, and cash flows for the year ended, and the related notes to the financial statements, and have issued our report thereon dated December 20, 2016.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered CoC'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 financial statements, but not for the purpose of expressing an opinion of the effectiveness of CoC's internal control. Accordingly, we do not express an opinion on the effectiveness of CoC'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.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether CoC's financial statements are free from 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 intended solely to describe the scope of our testing of internal control and compliance and the results of the testing, and not to provide an opinion of the effectiveness of the organization'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 organization's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.



Davies, Houser & Secret, CPA, P.A.
Cocoa, Florida
December 20, 2016



DAVIES, HOUSER & SECREST, CPA, P.A.

Shareholders/Directors

Stephen A. Ellis, Shareholder
Todd M. Russell, Shareholder
Donna L. Young, Director

Directors Emeritus

Floyd C. Lemmon
Robert E. Andersen, Jr.

INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR EACH MAJOR FEDERAL PROGRAM AND STATE PROJECTS AND REPORT ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY OMB CIRCULAR A-133 AND CHAPTER 10.650, RULES OF THE AUDITOR GENERAL

Board of Directors
Circles of Care, Inc.
Melbourne, Florida

Report on Compliance for Each Major Federal Program and State Project

We have audited Circles of Care, Inc. (CoC), (a non-profit organization), compliance with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) *Circular A-133 Compliance Supplement* and the *Department of Financial Services' State Projects Compliance Supplement*, that could have a direct and material effect on each of CoC's major Federal programs and State projects for the year ended June 30, 2016. CoC's major Federal program and State projects are identified in the summary of auditor's results section of the accompanying schedules 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 Federal programs and State projects.

Auditor's Responsibility

Our responsibility is to express an opinion on the compliance of each of CoC's major Federal programs and State 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 of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*; and Chapter 10.650, Rules of the Auditor General. Those standards, OMB Circular A-133 and Chapter 10.650, Rules of the Auditor General, require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major Federal program or State project occurred. An audit includes examining, on a test basis, evidence about CoC'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 Federal program and State project. However, our audit does not provide a legal determination of CoC's compliance.

Opinion on Each Major Federal Program and State Project

In our opinion, CoC has 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 Federal programs and State projects for the year ended June 30, 2016.

Report on Internal Control Over Compliance

Management of CoC 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 CoC's internal control over compliance with the types of requirements that could have a direct and material effect on a major Federal program or State projects to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing our opinion on compliance for each major Federal program and State project and to test and report on internal control over compliance in accordance with OMB Circular A-133 and Chapter 10.650, Rules of the Auditor General, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of CoC'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 for a Federal program and State 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 a material noncompliance with a type of compliance requirement of a Federal program and State project will not be prevented or detected and corrected on a timely basis. *A significant deficiency* in internal controls over compliance is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a Federal program and State 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 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 OMB Circular A-133 and Chapter 10.650, Rules of the Auditor General. Accordingly, this report is not suitable for any other purpose.



Davies, Houser & Secret, CPA, P.A.
Cocoa, Florida
December 20, 2016

CIRCLES OF CARE, INC.

SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FEDERAL AWARDS
For the year ended June 30, 2016

I. Summary of Auditor's Results	Answers
1. Type of report issued on financial statements	Unmodified
2. Significant deficiencies in internal control disclosed by the audit of the financial statements	None
3. Noncompliance which is material to the audited financial statements	None
4. Significant deficiencies in internal control over major programs disclosed by the audit	None
5. Type of report on compliance for major programs	Unmodified
6. Audit findings required to be reported by Paragraph .510 of OMB Circular A-133	None
7. Identification of Major Federal Program U.S. Department of Health and Human Services: Block Grant for Prevention and Treatment of Substance Abuse	CFDA #93.958
8. Dollar threshold for Type A programs	\$750,000
9. Low risk auditee	Yes
II. Findings required to be reported in accordance with generally accepted <i>Government Auditing Standards</i>	None
III. Findings and questioned costs for federal awards as defined in Paragraph .510 of OMB Circular A-133 for the current year	None

CIRCLES OF CARE, INC.
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
FEDERAL AWARDS PROGRAMS
For the year ended June 30, 2016

No prior year findings.

CIRCLES OF CARE, INC.

SCHEDULE OF FINDINGS AND QUESTIONED COSTS
STATE FINANCIAL ASSISTANCE PROJECTS
For the year ended June 30, 2016

I. Summary of Auditor's Results	Answers
1. Type of report issued on financial statements	Unmodified
2. Significant deficiencies in internal control disclosed by the audit of the financial statements	None
3. Noncompliance which is material to the audited financial statements	None
4. Significant deficiencies in internal control over major programs disclosed by the audit	None
5. Type of report on compliance for major programs	Unmodified
6. Audit findings required to be reported under Chapter 10.656 of the Rules of the Auditor General	None No Management Letter Issued
7. Identification of Major State Projects U.S. Department of Health and Human Services: SAMH – Community Services SAMH – Crisis Prevention & Stabilization Children's Action Team for Mental Health	CSFA #60.142 CSFA #60.144 CSFA #60.150
8. Dollar threshold for Type A programs	\$300,000
II. Findings required to be reported in accordance with generally accepted <i>Government Auditing Standards</i>	None
III. Findings and questioned costs for State projects as defined under Chapter 10.656(1)(h)4d, Rules of the Auditor General	None
IV. Prior year's audit findings	None