Consolidated Financial Statements and Florida Single Audit Report

The Devereux Foundation and Controlled Entities
d/b/a Devereux Advanced Behavioral Health
Year Ended June 30, 2016 and 2015
With Report of Independent Auditors

Ernst & Young LLP

Building a better
working world

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d/b/a Devereux Advanced Behavioral Health

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and Florida Single Audit Report

Years Ended June 30, 2016 and 2015

Contents

Building a better working world

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Report of Independent Auditors

The Board of Trustees
The Devereux Foundation and Controlled Entities
d/b/a Devereux Advanced Behavioral Health

Report on the Financial Statements d/b/a Devereux Advanced Behavioral Health

We have audited the accompanying consolidated financial statements of The Devereux Foundation and Controlled Entities d/b/a Devereux Advanced Behavioral Health (Devereux), which comprise the consolidated balance sheets as of June 30, 2016 and 2015, 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.

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, 2016 and 2015, 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 9, 2016, 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 9, 2016, except for the schedule
of expenditures of state financial assistance
and schedule of functional expenses, for
which the date is December 22, 2016

The Devereux Foundation and Controlled Entities
d/b/a Devereux Advanced Behavioral Health

Consolidated Balance Sheets

(In Thousands)

	June 30	
	2016	**2015**
Assets		
Current assets:		
Cash and cash equivalents, including client funds on deposits of $1,865 and $1,907 in 2016 and 2015, respectively	**$ 11,236**	$ 12,675
Accounts receivable, net of allowance for uncollectibles of $4,857 and $6,357 in 2016 and 2015, respectively	**51,053**	50,558
Current portion of assets limited as to use	**793**	751
Operating fund investments	**27,886**	18,876
Prepaid expenses and other current assets	**5,563**	5,385
Total current assets	**96,531**	88,245
Assets limited as to use:		
By Board for designated purposes	**97,316**	102,967
By trustees under bond indenture agreements	**2,715**	2,685
By Board for donor purposes	**14,150**	14,105
By insurance agreement	**4,000**	4,000
	118,181	123,757
Property and equipment, net	**108,112**	111,267
Other assets:		
Other assets	**372**	469
Pledges receivable and deferred gifts	**6,107**	6,350
Total other assets	**6,479**	6,819
Total assets	**$ 329,303**	$ 330,088

	June 30	
	2016	**2015**
Liabilities and net assets		
Current liabilities:		
Current portion of long-term debt	**$ 3,922**	$ 3,725
Accounts payable and accrued expenses	**11,043**	10,783
Employee compensation and related benefits	**30,469**	27,997
Estimated settlements due to third-party payors	**15,998**	13,888
Reserves under insurance programs and other current liabilities	**12,445**	12,345
Client funds on deposit	**1,865**	1,907
Total current liabilities	**75,742**	70,645
Estimated settlements due to third-party payors	**2,118**	909
Reserves under insurance programs and other liabilities	**18,729**	17,609
Deferred revenue	**6,868**	7,562
Obligation to provide future services and use of facilities to continuing care clients	**6,084**	7,277
Long-term debt	**54,452**	58,440
Total liabilities	**163,993**	162,442
Net assets:		
Unrestricted	**144,769**	146,909
Temporarily restricted	**13,832**	13,550
Permanently restricted	**6,709**	7,187
Total net assets	**165,310**	167,646
Total liabilities and net assets	**$ 329,303**	$ 330,088

See accompanying notes.

The Devereux Foundation and Controlled Entities
d/b/a Devereux Advanced Behavioral Health

Consolidated Statements of Operations and Changes in Net Assets

(In Thousands)

	Year Ended June 30	
	2016	**2015**
Unrestricted net assets		
Revenue:		
Net client revenue	**$ 422,189**	$ 401,253
Investment income	**4,128**	7,736
Gifts and bequests	**3,385**	5,202
Other revenue	**10,912**	10,195
Net assets released from restrictions for operations	**1,338**	2,245
	441,952	426,631
Expenses:		
Salaries and wages	**255,182**	240,255
Employee benefits	**70,714**	67,373
Food	**7,517**	7,396
Purchased services	**35,472**	35,319
Supplies	**8,711**	8,682
Plant operation and maintenance	**25,723**	25,874
Provision for bad debts	**2,481**	1,838
Depreciation and amortization	**14,010**	13,397
Interest	**3,257**	3,179
Insurance	**4,392**	3,476
Other	**11,168**	11,138
	438,627	417,927
Operating income before other items	**3,325**	8,704
Other items:		
Excess of fair value of net assets acquired over consideration paid	**–**	662
Decrease (increase) in obligation to provide future services and the use of facilities to continuing care clients	**1,193**	(673)
Change in fair value of interest rate swap	**(438)**	(84)
Net gain on disposition of property	**273**	373
Other income	**1,028**	278
Excess of revenue over expenses	**4,353**	8,982

(Continued on following page.)

The Devereux Foundation and Controlled Entities
d/b/a Devereux Advanced Behavioral Health

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

(In Thousands)

	Year Ended June 30 2016	2015
Unrestricted net assets (continued)		
Excess of revenue over expenses	**$ 4,353**	$ 8,982
Other changes in unrestricted net assets:		
Unrealized loss on investments	**(6,954)**	(8,923)
Net assets released from restrictions for property and equipment purchases	**461**	1,162
Other	**–**	(1,770)
Decrease in unrestricted net assets	**(2,140)**	(549)
Temporarily restricted net assets		
Gifts, grants, and bequests, net	**2,151**	3,360
Excess of fair value of net assets acquired over consideration paid	**–**	172
Net assets released from restrictions for operations	**(1,408)**	(2,565)
Net assets released from restrictions to finance property and equipment purchases	**(461)**	(1,162)
Increase (decrease) in temporarily restricted net assets	**282**	(195)
Permanently restricted net assets		
Gifts, grants, and bequests	**2**	3
Net realized and unrealized loss on investments	**(120)**	(169)
Other	**(360)**	(331)
Decrease in permanently restricted net assets	**(478)**	(497)
Decrease in net assets	**(2,336)**	(1,241)
Net assets, beginning of year	**167,646**	168,887
Net assets, end of year	**$ 165,310**	$ 167,646

See accompanying notes.

The Devereux Foundation and Controlled Entities
d/b/a Devereux Advanced Behavioral Health

Consolidated Statements of Cash Flows
(In Thousands)

	Year Ended June 30	
	2016	**2015**
Operating activities		
Decrease in net assets	**$ (2,336)**	$ (1,241)
Adjustments to reconcile decrease in net assets to net cash provided by operating activities:		
Net gain on disposition of property	**(273)**	(373)
Excess of fair value of net assets acquired over consideration paid	**–**	(834)
Depreciation and amortization	**14,010**	13,397
Provision for bad debts	**2,481**	1,838
Net realized and unrealized losses in fair value of investments	**6,152**	6,782
(Decrease) increase in obligation to provide future services	**(1,193)**	673
Change in fair value of interest rate swap	**438**	84
Restricted contributions	**(2,153)**	(2,872)
Changes in operating assets and liabilities:		
Accounts receivable	**(2,976)**	(6,788)
Prepaid expenses and other current assets	**(178)**	(1,658)
Pledges receivable	**70**	1,041
Accounts payable and accrued expenses	**(178)**	1,496
Employee compensation and related benefits	**2,472**	2,960
Deferred revenue	**(694)**	88
Estimated settlements due to third-party payors, net	**3,319**	1,566
Reserves under insurance programs and other current liabilities	**1,178**	1,649
Net cash provided by operating activities	**20,139**	17,808
Investing activities		
Purchases of property and equipment, net	**(10,492)**	(10,168)
Acquisition of businesses	**–**	(1,771)
Other assets	**97**	53
Purchases of investments	**(14,860)**	(21,997)
Sales of investments	**5,210**	12,301
Net cash used in investing activities	**(20,045)**	(21,582)
Financing activities		
Proceeds from long-term debt	**–**	5,000
Repayments of long-term debt	**(3,764)**	(3,540)
Deferred financing costs incurred	**(95)**	(14)
Restricted contributions, net	**2,326**	1,942
Net cash (used in) provided by financing activities	**(1,533)**	3,388
Decrease in cash and cash equivalents	**(1,439)**	(386)
Cash and cash equivalents at beginning of year	**12,675**	13,061
Cash and cash equivalents at end of year	**$ 11,236**	$ 12,675

See accompanying notes.

1. Organization and Basis of Presentation

The Devereux Foundation and Controlled Entities d/b/a Devereux Advanced Behavioral Health (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 community group homes, outpatient, foster care, in home, educational, vocational, and prevention programs.

Devereux functions as the sole corporate member for the following entities (the Controlled 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 on 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. In 2016, in addition to normal write-offs as described above, Devereux wrote off a receivable in the amount of $2,332 that was fully reserved as of June 30, 2015.

2. Summary of Significant Accounting Policies (continued)

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 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. No interest was capitalized in 2016 or 2015.

2. Summary of Significant Accounting Policies (continued)

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. For all periods presented, debt issuance costs are 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 or premiums. In connection with the Devereux's early adoption of Accounting Standards Update (ASU) 2015-03, *Interest – Imputation of Interest (Subtopic 835-30): Simplifying the Presentation of Debt Issuance Costs*, as of June 30, 2016, $909 of unamortized debt issuance costs were reclassified from other long-term assets, deferred financing costs, net to a reduction of the long-term debt liability on the accompanying consolidated balance sheet as of June 30, 2015. This change did not impact Devereux's operating results or cash flows in the consolidated financial statements.

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 2016 and 2015, 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.

2. Summary of Significant Accounting Policies (continued)

Excess of Revenue Over Expenses

Included in the excess of revenue over expenses on 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 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 $11,092 and $9,586 in 2016 and 2015, respectively.

2. Summary of Significant Accounting Policies (continued)

In total, the amounts Devereux receives from third-party payors do not cover the full cost of providing services to its clients. For 2016 and 2015, the percentage of total expenses covered by Devereux's clients or third-party payors was 98.74% and 98.60%, 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 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 on 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, education, and child welfare 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.

2. Summary of Significant Accounting Policies (continued)

Recent Accounting Pronouncements

In May 2014, the Financial Accounting Standards (FASB) issued ASU 2014-09, *Revenue from Contracts with Customers (Topic 606)*, 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 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 transition method and the impact the adoption of this standard will have on the consolidated financial statements.

In May 2015, the FASB issued ASU 2015-07, *Fair Value Measurement (Topic 82): 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 Measurement*. 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 standard will not have a material impact on Devereux's consolidated financial statements.

In January 2016, the FASB issued ASU 2016-01, *Financial Instruments – Overall (Subtopic 825-10)*. ASU 2016-01 will require business-oriented health care not-for-profit entities to measure equity investments that do not result in consolidation and are not accounted for under the equity method at fair value and recognize any changes in fair value in the performance indicator unless the investments qualify for a new practicality exception. The practicality exception is available for equity investments without a readily determinable fair value, for which measurement would be based on cost less impairment and adjusted for observable price changes. Subsequent to the adoption of ASU 2016-01, Devereux will no longer be able to recognize unrealized holding gains and losses on equity securities currently classified as other-than-trading outside of the performance indicator. This ASU does not impact the accounting for investments

2. Summary of Significant Accounting Policies (continued)

in debt securities. The guidance is effective for annual periods beginning after December 15, 2018. Early adoption is permitted for annual periods beginning after December 15, 2017. Devereux is currently evaluating the impact the adoption of this standard will have on the consolidated financial statements.

In February 2016, the FASB issued ASU 2016-02, *Leases (Topic 842)*, which will require a lessee to report most leases on its balance sheet but recognize expenses on its income statement in a manner similar to current accounting. The guidance also eliminates current real estate-specific provisions. The provisions of ASU 2016-02 are effective for Devereux for annual periods beginning after December 15, 2018, and interim periods within those years. Early adoption is permitted. Devereux is currently evaluating the impact the adoption of this standard will have on the consolidated financial statements.

In August 2016, the FASB issued ASU 2016-14, *Not-for-Profit Entities (Topic 958), Presentation of Financial Statements of Not-for-Profit Entities*, which simplifies and improves how a not-for-profit organization classifies its net assets, as well as the information it presents in financial statements and notes about its liquidity, financial performance, and cash flows. The guidance is effective for fiscal years beginning after December 15, 2017, and interim periods within fiscal years beginning after December 15, 2018. Early application is permitted. The guidance must be initially adopted for an annual fiscal period or for the first interim period within the fiscal year of adoption. The guidance will be applied retrospectively. Devereux is currently evaluating the impact the adoption of this standard will have on the 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 9, 2016.

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 2016 or 2015. 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 accounted for 94% and 95% of total net client revenue in fiscal years 2016 and 2015, respectively. 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 2016 and 2015, prior year settlement adjustments increased net client revenue by $1,387 and $873, 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	
	2016	**2015**
Assets limited as to use and operating fund investments:		
Cash and cash equivalents	**$ 4,336**	$ 4,892
Equity mutual funds	**49,937**	52,153
Commodity funds	**6,652**	6,365
Real estate investment trust (REIT) funds	**3,385**	2,882
Fixed-income mutual funds	**6,367**	6,673
Multi-asset funds	**65,341**	59,462
U.S. government and agency bonds	**10,842**	10,957
Total	**$ 146,860**	$ 143,384

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	
	2016	**2015**
Unrestricted net assets		
Amounts included in investment income:		
Interest, dividends, and distributions	**$ 3,205**	$ 5,425
Net realized gains on sales of investments	**923**	2,311
	4,128	7,736
Other changes in unrestricted net assets:		
Net change in unrealized gains and losses on investments	**(6,954)**	(8,923)
Permanently restricted net assets		
Net realized and unrealized losses on investments	**(121)**	(169)
Total investment loss	**$ (2,947)**	$ (1,356)

(In Thousands)

4. Investments (continued)

Devereux's gross unrealized losses and fair value of individual securities, aggregated by investment category, which have been in a continuous unrealized loss position less than 12 months and greater than 12 months at June 30, 2016 and 2015, respectively, are as follows:

	Less than 12 Months		12 Months or Longer		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
June 30, 2016						
Commodity funds (1 security)	**$ –**	**$ –**	**$ 6,652**	**$ (1,528)**	**$ 6,652**	**$ (1,528)**
Equity mutual-funds (1 security)	**6,408**	**(257)**	**–**	**–**	**6,408**	**(257)**
Multi-asset funds (2 securities)	**40,244**	**(2,212)**	**14,976**	**(1,259)**	**55,220**	**(3,471)**
U.S. government and agency bonds (2 securities)	**–**	**–**	**793**	**(18)**	**793**	**(18)**
Total	**$ 46,652**	**$ (2,469)**	**$ 22,421**	**$ (2,805)**	**$ 69,073**	**$ (5,274)**
June 30 ,2015						
Commodity funds (1 security)	$ –	$ –	$ 6,365	$ (1,504)	$ 6,365	$ (1,504)
Fixed-income mutual-funds (1 security)	4,122	(52)	–	–	4,122	(52)
Multi-asset funds (1 security)	15,648	(281)	–	–	15,648	(281)
U.S. government and agency bonds (5 securities)	2,141	(89)	–	–	2,141	(89)
Total	$ 21,911	$ (422)	$ 6,365	$ (1,504)	$ 28,276	$ (1,926)

At June 30, 2016 and 2015, management determined that the unrealized losses were temporary based on the extent and length of time the securities' fair value was below cost, and are not material to the overall investment portfolio.

Additionally, as of June 30, 2016 and 2015, Devereux had gross unrealized gains of $15,092 and $18,910 on investments with fair values of $77,787 and $115,108, respectively.

(In Thousands)

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.

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, 2016				
Cash and cash equivalents	**$ 11,236**	**$ 11,236**	**$ –**	**$ –**
Assets limited as to use and operating fund investments:				
Cash and cash equivalents	**$ 4,336**	**$ 4,336**	**$ –**	**$ –**
Equity mutual funds	**49,937**	**49,937**	**–**	**–**
Commodity funds	**6,652**	**6,652**	**–**	**–**
REIT funds	**3,385**	**3,385**	**–**	**–**
Fixed-income mutual funds	**6,367**	**6,367**	**–**	**–**
Multi-asset funds	**65,341**	**25,097**	**40,244**	**–**
U.S. government and agency bonds	**10,842**	**–**	**10,842**	**–**
	$ 146,860	**$ 95,774**	**$ 51,086**	**$ –**
Beneficial interest in trusts held by third parties, net *(Note 7)*	**$ 5,857**	**$ –**	**$ –**	**$ 5,857**
Liabilities:				
Interest rate swap	**$ 849**	**$ –**	**$ 849**	**$ –**

(In Thousands)

5. Fair Value Measurements (continued)

	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	–	–
Multi-asset funds	59,462	15,648	43,814	–
U.S. government and agency bonds	10,957	–	10,957	
	$ 143,384	$ 88,613	$ 54,771	$ –
Beneficial interest in trusts held by third parties, net *(Note 7)*	$ 6,143	$ –	$ –	$ 6,143
Liabilities:				
Interest rate swap	$ 411	$ –	$ 411	$ –

As of June 30, 2015, the fair value of U.S. government and agency bonds and beneficial interest in trusts held by third parties were reported as Level 1 and Level 2, respectively. The prior period disclosure has been adjusted to reflect U.S. government and agency bonds and beneficial interest in trusts held by third parties as Level 2 and Level 3, respectively. These revisions of this disclosure are not considered material to the consolidated financial statements of Devereux.

(In Thousands)

5. Fair Value Measurements (continued)

The following table sets forth the change in the fair value of financial instruments using significant unobservable inputs:

Fair value balance, June 30, 2014	$	5,689
Additions		480
Distributions		–
Changes in fair value		(26)
Fair value balance, June 30, 2015		6,143
Additions		**–**
Distributions		**–**
Changes in fair value		**(286)**
Fair value balance, June 30, 2016	**$**	**5,857**

Devereux's Level 1 securities primarily consist of cash, money market funds, equity mutual funds, commodity funds, REIT funds, and fixed-income mutual funds. 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 three multi-asset funds. Two of the funds are exchange-traded mutual funds whose fair values have 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, 2016 and 2015. The fair value of these underlying assets as of June 30, 2016 and 2015, was $40,244 and $43,814, 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 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.

(In Thousands)

6. Property and Equipment

	Estimated Useful Lives	June 30 2016	2015
Land		**$ 6,575**	$ 6,575
Land improvements	8–25 years	**25,292**	26,122
Buildings and improvements	5–40 years	**230,090**	227,844
Equipment	3–20 years	**66,804**	65,893
Construction-in-progress		**2,639**	1,493
		331,400	327,927
Less accumulated depreciation and amortization		**223,288**	216,660
		$ 108,112	$ 111,267

Depreciation expense was $13,920 and $13,304 in 2016 and 2015, respectively.

7. Pledges Receivable and Deferred Gifts

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

	June 30 2016	2015
Pledges receivable in:		
Less than one year	**$ 52**	$ 45
One to five years	**226**	187
	278	232
Less allowance for uncollectible accounts	**(15)**	(12)
Less discount to present value	**(13)**	(13)
Pledges receivable, net	**250**	207
Beneficial interest in trusts held by third parties, net	**5,857**	6,143
Total	**$ 6,107**	$ 6,350

The present value of the future cash flows of pledges receivable was determined using discount rates approximating 2.0% for 2016 and 2015.

(In Thousands)

7. Pledges Receivable and Deferred Gifts (continued)

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 on 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 2016 and 2015, Devereux did not receive any cash from trusts and no new gifts in beneficial interest in trusts were received. The interests are recorded at fair value as represented by the third-party trustee.

8. Long-Term Debt

	June 30	
	2016	**2015**
$29,240 tax-exempt Chester County Health and Education Facilities Authority Revenue Bonds, Series of 2006 (the 2006 Pennsylvania Bonds)	**$ 21,835**	$ 22,780
3.25% to 7.15% mortgages payable monthly through October 2028, secured by the related properties, equipment, or revenue	**8,278**	8,909
$6,580 tax-exempt Chester County Health and Education Facilities Authority Revenue Bonds, Series of 2011 (the 2011 Pennsylvania Bonds)	**4,673**	5,064
$8,745 tax-exempt Chester County Health and Education Facilities Authority Revenue Bonds, Series of 2012 (the 2012 Pennsylvania Bonds)	**7,214**	7,735
$7,054 tax-exempt Colorado Health Facilities Authority Revenue Bonds, Series of 2012 (the 2012 Colorado Bonds)	**4,978**	5,700
$9,000 taxable borrowing from a bank (the 2013 Loan)	**7,165**	7,594
$5,000 taxable borrowing from a bank (the 2015 Loan)	**4,845**	4,962
Total long-term debt	**58,988**	62,744
Less current portion	**(3,922)**	(3,725)
Less deferred financing costs	**(914)**	(909)
Net original issue premium	**300**	330
Net long-term debt	**$ 54,452**	$ 58,440

8. Long-Term Debt (continued)

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 10 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 with the 2013 Loan, Devereux entered into a 15-year interest rate swap with an original notional amount of $8,393 (current notional amount of $7,594) that effectively fixes the interest rate at 5.028%.

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 7 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, 2016, was 1.70%. The bonds mature over a 15½-year period, and the financial institution has an option to call the bonds after 7 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. The 2006 Pennsylvania Bonds are callable at par on November 1, 2016, at which point Devereux expects to exercise this option through proceeds of a contemplated refinancing.

(In Thousands)

8. Long-Term Debt (continued)

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 premium 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 as of and for the years ended June 30, 2016 and 2015.

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	$122 to $308	$451 to $769	$533 to $674
Interest payment dates	Monthly	Monthly	May 1 and November 1
Range of interest rates	4.214%	5.028%	2.150%

(In Thousands)

8. Long-Term Debt (continued)

	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	\$396 to \$454	\$995 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%

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

2017	$ 3,922
2018	3,980
2019	4,789
2020	4,186
2021	3,765
Thereafter	38,177

Interest paid on all indebtedness amounted to $3,278 and $3,203 in 2016 and 2015, respectively.

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, 2016. 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, 2016 and 2015, under the Revolver, interest on working capital loans is computed at the one-month LIBOR plus an applicable margin of 1.00%. At June 30, 2016 and 2015, no working capital loans were outstanding. At June 30, 2016, letters of credit aggregating $9,770 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, 2016 and 2015. A commitment fee of 0.25% is paid on unused revolver amounts.

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 2016 and 2015: 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% of the average annual operating cost, an interest yield of 6.00%, 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 2016 and 2015) or other benefits on behalf of the clients.

As of June 30, 2016, there were 20 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	
	2016	**2015**
Gross liability	**$ 17,043**	$ 19,085
Social Security and other benefits	**(7,485)**	(7,987)
Future trust interests	**(3,474)**	(3,821)
	$ 6,084	$ 7,277

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 $7,949 and $7,764 in 2016 and 2015, respectively.

(In Thousands)

12. Temporarily Restricted Net Assets

Temporarily restricted net assets are available for the following purposes:

	June 30 2016	June 30 2015
Purchase of property and equipment	**$ 529**	$ 529
Behavioral health care and education services	**4,252**	4,170
Research	**926**	795
Other	**2,001**	1,715
For future periods	**6,124**	6,341
	$ 13,832	$ 13,550

During 2016 and 2015, $1,408 and $2,565, respectively, of temporarily restricted net assets were released from restrictions for operations, of which $70 and $320, respectively, related to the collection of previous pledges, which are classified as a component of unrestricted gifts and bequests on 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 2016	June 30 2015
Endowment balance at beginning of year	**$ 7,187**	$ 7,684
Investment income return:		
Investment income	**105**	159
Realized and unrealized losses	**(120)**	(169)
Total investment income return	**(15)**	(10)
Contributions	**2**	3
Appropriation of endowment assets for intended purpose	**(465)**	(490)
Endowment balance at end of year	**$ 6,709**	$ 7,187

(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, 2016 and 2015, was $9,171 and $8,838, respectively. The following is a schedule by year of future minimum lease payments under operating leases as of June 30, 2016, that have initial or remaining lease terms in excess of one year.

Year ending June 30:		
2017	$	6,837
2018		4,258
2019		2,675
2020		1,799
2021		1,296
Thereafter		1,212
	$	18,077

Workers' Compensation

Devereux maintains workers' compensation insurance with a per-claim deductible of $750 for 2016 and 2015. Due to this level of retention, Devereux maintains $1,260 of cash on deposit with its insurers for the payment of future claims, which is included in operating fund investments on the consolidated balance sheets. Additionally, Devereux is required to post letters of credit of $9,770 as collateral for its obligations as of June 30, 2016 and 2015 (see Note 9). Based upon historical loss experience, management determined that a $14,507 and $15,080 liability for the estimated retention and costs of claims not settled as of June 30, 2016 and 2015, respectively, be recorded as a component of reserves under insurance programs and other liabilities on 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 2016 and 2015 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 $4,752 as of June 30, 2016. Based upon historical loss experience, management determined that a $6,472 and $5,189 liability for the estimated retention and cost of claims and incidents not settled as of June 30, 2016 and 2015, respectively, be recorded as a component of reserves under insurance programs and other liabilities on 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.

Supplementary Information

Florida Single Audit

The Devereux Foundation and Controlled Entities
d/b/a Devereux Advanced Behavioral Health

Schedule of Expenditures of State Financial Assistance

Year Ended June 30, 2016

Grant Name	Contract Number	CSFA Number	Total Expenditures
Brevard Family Partnership	OHC RA-1401	60.138	$ 241,488
Heartland for Children	LDXMS1	60.138	82,512
Partnership for Strong Families	Funding Letters	60.138	133,920
Community Based Care of Central Florida	SEMOROS011-1516	60.138	60,480
Children's Network of Southwest Florida	EBL01	60.138	109,600
Department of Children & Families	GH502	60.138	359,000
Total 60.138: Sexually Exploited Children			987,000
Heartland for Children	LDXMS1	60.074	46,093
Kids Central	C1516-DVR-D031	60.074	2,018
Kids Central	C1516-PRV-D031	60.074	306,999
Community Based Care of Central Florida	OROS032-1317	60.074	141,119
Community Based Care of Central Florida	OROS007-1516	60.074	209,686
Total 60.074: Out of Home Care Support			705,916
Kids Central	C1516-DVR-D031	60.075	177,415
Kids Central	C1516-PRV-D031	60.075	235,605
Community Based Care of Central Florida	OROS032-1317	60.075	20,012
Community Based Care of Central Florida	SEMOROS011-1516	60.075	178,980
Total 60.074: In Home Care Support			612,011
Kids Central	Funding Letters	60.112	369
Community Based Care of Central Florida	OROS032-1317	60.112	63,882
Total 60.112: Independent Living Program			64,251
Grand Total of Florida State Awards			$ 2,369,177

See accompanying notes.

Notes to the Schedule of Expenditures of State Financial Assistance

Year Ended June 30, 2016

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
d/b/a Devereux Advanced Behavioral Health

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 d/b/a Devereux Advanced Behavioral Health (Devereux), which comprise the consolidated balance sheets as of June 30, 2016 and 2015, 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 9, 2016.

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.

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 9, 2016

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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
d/b/a Devereux Advanced Behavioral Health

Report on Compliance for Each Major State Financial Assistance Project

We have audited The Devereux Foundation and Controlled Entities d/b/a Devereux Advanced Behavioral Health's (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, 2016. 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.

Building a better working world

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, 2016.

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 22, 2016

Schedule of Findings and Questioned Costs

Year Ended June 30, 2016

Section I – Summary of Auditor's Results

Financial Statements Section

Type of report the auditor issued on whether the financial statements audited were prepared in accordance with GAAP:	Unmodified

Internal control over financial reporting:

Material weaknesses identified?		Yes	✓	No
Significant deficiencies identified?		Yes	✓	None reported
Noncompliance material to financial statements noted?		Yes	✓	No

State Financial Assistance Section

Internal control over major projects:

Material weaknesses identified?		Yes	✓	No
Significant deficiencies identified?		Yes	✓	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	✓	No

Identification of major projects:

CSFA Number	Name of State Project
60.074	Out-of-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.

The Devereux Foundation and Controlled Entities

Schedule of Functional Expenses for Devereux Florida

Year Ended June 30, 2016

Expense Categories A	Inpatient (Viera) $B_{1\text{-}a}$	Residential LV 1 (RTC) $B_{1\text{-}b}$	Residential LV 2 R&B w/ Supervision (lv 2-3 % (a)) $B_{1\text{-}c}$	Residential LV 2 (STFC-L2) $B_{1\text{-}e}$	Residential LV 3 (STFC-L1) $B_{1\text{-}f}$	Residential LV 3 (TFC) $B_{1\text{-}g}$	Prevention $B_{1\text{-}h}$	Outpatient $B_{1\text{-}i}$	Case Management $B_{1\text{-}j}$	Total for State SAMH-Funded Cost Centers ($B1_{\text{-}a}$+…+$B1_{\text{-}x}$) 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	$ 12,594,640	$ 2,850,187	$ 1,146,740	$ 416,823	$ 303,389	$ 1,530,450	$ 2,733,373	$ 2,156,985	$ 8,088,464	$ 31,821,053	$ 31,821,053	$ 4,845,535	$ 3,209,707	$ 39,876,294
(2) Fringe benefits	3,765,205	822,015	341,698	119,041	86,645	437,082	767,089	452,411	2,220,435	9,011,622	9,011,622	1,190,341	819,005	11,020,967
Total personnel expenses	16,359,845	3,672,202	1,488,438	535,863	390,034	1,967,533	3,500,462	2,609,396	10,308,899	40,832,674	40,832,674	6,035,875	4,028,712	50,897,262
IIB. Other expenses														
(1) Building occupancy	896,399	352,790	225,349	54,279	39,507	199,295	203,441	149,851	523,614	2,644,525	2,644,525	401,385	455,303	3,501,213
(2) Professional services	1,283,464	377,044	38,554	318,466	231,799	1,169,312	387,074	713,066	360,976	4,879,755	4,879,755	118,819	348,552	5,347,126
(3) Travel	25,894	23,165	381	2,123	1,545	7,794	16,620	3,526	67,337	148,385	148,385	36,871	94,343	279,598
(4) Equipment	785,467	231,011	86,420	7,740	5,634	28,420	36,180	22,454	74,091	1,277,416	1,277,416	250,041	135,132	1,662,589
(5) Food services	493,087	167,642	41,390	140	102	515	8,186	858	1,148	713,068	713,068	152,247	6,926	872,242
(6) Medical and pharmacy	626,020	169,128	6,650	3,083	2,244	11,318	207,255	311	8	1,026,017	1,026,017	13,912	–	1,039,929
(7) Subcontracted services	–	–	–	–	–	–	–	–	–	–	–	–	–	–
(8) Insurance	311,146	62,247	27,234	15,563	11,328	57,142	48,681	39,233	141,136	713,710	713,710	87,368	7,774	808,851
(9) Interest paid	179,612	16,885	6,874	3,668	2,670	13,469	15,751	13,117	43,639	295,684	295,684	98,295	4,293	398,272
(10) Operating supplies and expenses	457,357	126,100	55,249	539	392	1,980	15,115	2,973	10,720	670,426	670,426	84,620	10,540	765,586
(11) Other	907,254	244,704	90,602	45,830	33,358	168,273	245,413	161,300	703,403	2,600,137	2,600,137	275,252	(380,621)	2,494,768
(12) Donated items	–	–	–	–	–	–	–	–	–	–	–	–	–	–
Total other expenses	5,965,699	1,770,717	578,702	451,430	328,579	1,657,519	1,183,715	1,106,689	1,926,072	14,969,123	14,969,123	1,518,809	682,241	17,170,173
Total personnel and other expenses	22,325,544	5,442,919	2,067,140	987,294	718,613	3,625,052	4,684,177	3,716,086	12,234,971	55,801,797	55,801,797	7,554,684	4,710,953	68,067,435
IIC. Distributed indirect costs														
(a) Other support costs (optional)	1,685,150	397,038	159,523	81,458	59,290	299,090	366,847	295,580	728,038	4,072,014	4,072,014	541,493	(4,613,507)	–
(b) Administration	981,958	238,699	91,062	43,698	31,806	160,446	206,368	164,119	529,999	2,448,153	2,448,153	330,757	4,670	2,783,580
Total distributed indirect costs	2,667,108	635,737	250,584	125,156	91,096	459,536	573,215	459,698	1,258,036	6,520,167	6,520,167	872,250	(4,608,837)	2,783,580
Total projected operating expenses	24,992,652	6,078,656	2,317,725	1,112,450	809,710	4,084,588	5,257,392	4,175,784	13,493,008	62,321,964	62,321,964	8,426,935	102,117	70,851,015
IID. Unallowable costs	234,000	103,500	12,000	17,696	12,880	64,974	–	115,500	–	560,550	560,550	57,000	–	617,550
IIE. Total SAMH lines of credit equivalent	–	–	–	–	–	–	–	–	–	–	–	–	–	–
Total allowable projected operating expenses	$ 24,758,652	$ 5,975,156	$ 2,305,725	$ 1,094,754	$ 796,829	$ 4,019,614	$ 5,257,392	$ 4,060,284	$ 13,493,008	$ 61,761,414	$ 61,761,414	$ 8,369,935	$ 102,117	$ 70,233,465

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