

**FAMILY HEALTH CENTERS OF
SOUTHWEST FLORIDA, INC.**

**FINANCIAL STATEMENTS AND SUPPLEMENTARY
INFORMATION TOGETHER WITH
REPORTS OF INDEPENDENT AUDITOR**

**YEARS ENDED
DECEMBER 31, 2016 AND 2015**

TABLE OF CONTENTS

	<u>Page(s)</u>
Independent Auditor's Report	1-3
<u>Financial Statements</u>	
Statements of Financial Position.....	4
Statements of Activities.....	5
Statements of Functional Expenses.....	6-7
Statements of Cash Flows.....	8
Notes to the Financial Statements.....	9-36
<u>Supplementary Information</u>	
Schedule of Expenditures of Federal Awards and State Financial Assistance - Year Ended December 31, 2016.....	37
Notes to Schedule of Expenditures of Federal Awards and and State Financial Assistance.....	38
<u>Additional Reports of Independent Auditor</u>	
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 <u>Government Auditing Standards</u>	39-40
Independent Auditor's Report on Compliance with Requirements That Could Have a Direct and Material Effect for Each Major Program and/or Each Major State Project and on Internal Control Over Compliance in Accordance with the Uniform Guidance and Florida Single Audit Act (Florida Statute 215.97)	41-43
Schedule of Findings and Questioned Costs - Federal Awards and State Financial Assistance.....	44-45
Independent Auditor's Report to Management.....	46-47
Management's Response to Independent Auditor's Report to Management.....	Exhibit



TUSCAN
& Company, PA

Certified Public Accountants & Consultants

Affiliations

Florida Institute of Certified Public Accountants

American Institute of Certified Public Accountants

Private Companies Practice Section

Tax Division

INDEPENDENT AUDITOR'S REPORT

Board of Directors
Family Health Centers of Southwest Florida, Inc.
2256 Heitman Street
Fort Myers, Florida 33901

Report on the Financial Statements

We have audited the accompanying financial statements of Family Health Centers of Southwest Florida, Inc. (a not-for-profit organization) which comprise the statements of financial position as of December 31, 2016 and 2015, and the related statements of activities, functional expenses, and cash flows for the years 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 audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America, and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States of America. 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

INTEGRITY SERVICE EXPERIENCE

12621 World Plaza Lane, Building 55 • Fort Myers, FL 33907 • Phone: (239) 333-2090 • Fax: (239) 333-2097

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 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 Family Health Centers of Southwest Florida, Inc. as of December 31, 2016 and 2015, and the changes in its net assets and its cash flows for the years then ended, in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Supplementary Information

Our audits were conducted for the purpose of forming an opinion on the financial statements of Family Health Centers of Southwest Florida, Inc. as a whole. The accompanying Schedule of Expenditures of Federal Awards and State Financial Assistance for the year ended December 31, 2016 and the Notes thereto are presented for purposes of additional analysis as required by Title 2 U.S. Code of Federal Regulations (CFR) Part 200, "Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards", the Florida Single Audit Act (FS. Chapter 215.97) and State of Florida Chapter 10.650 "Rules of the Auditor General" and are not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the accompanying Schedule of Expenditures of Federal Awards and State Financial Assistance for the year ended December 31, 2016 and the Notes thereto are fairly stated in all material respects in relation to the financial statements as a whole.

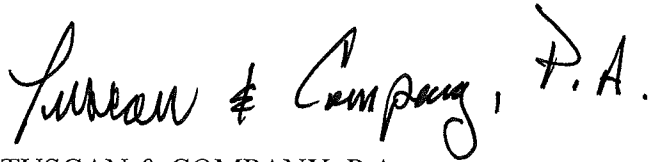
Board of Directors
Family Health Centers of
Southwest Florida, Inc.
Page 3

Other Information

The Exhibit - Management's Response to Independent Auditor's Report to Management, is not a required part of the financial statements but is required by Government Auditing Standards and State of Florida Chapter 10.650 "Rules of the Auditor General". Such information has not been subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we do not express an opinion or provide any assurance on it.

Other Reporting Required by Government Auditing Standards

In accordance with Government Auditing Standards, we have also issued our report dated April 6, 2017 on our consideration of Family Health Centers of Southwest Florida, Inc.'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 Family Health Centers of Southwest Florida, Inc.'s internal control over financial reporting and compliance.



TUSCAN & COMPANY, P.A.
Fort Myers, Florida
April 6, 2017

FAMILY HEALTH CENTERS OF SOUTHWEST FLORIDA, INC.
STATEMENTS OF FINANCIAL POSITION
December 31, 2016 and 2015

ASSETS	<u>2016</u>	<u>2015</u>
CURRENT ASSETS		
Cash and cash equivalents (including restricted cash of \$955,485 and \$1,571,956, respectively)	\$38,465,653	\$32,812,145
Patient receivables, net	4,585,385	3,512,746
Grant receivables	137,817	155,710
Other receivables	67,571	3,483
Inventory	50,645	24,045
Prepays and deposits	<u>389,678</u>	<u>263,605</u>
TOTAL CURRENT ASSETS	43,696,749	36,771,734
ASSETS HELD IN TRUST	517,634	401,437
INVESTMENT IN ACO	325,000	325,000
PROPERTY AND EQUIPMENT, NET	<u>25,384,390</u>	<u>26,039,754</u>
TOTAL ASSETS	<u><u>\$69,923,773</u></u>	<u><u>\$63,537,925</u></u>
LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES		
Accounts payable	\$ 1,400,727	\$ 1,525,433
Retainage payable	-	248,444
Accrued liabilities	3,180,549	2,964,998
Deferred revenue - federal and state grants	-	-
Deferred revenue - local grants and contracts	12,308	28,616
Line of credit	-	-
Current portion of long-term debt	<u>162,709</u>	<u>252,327</u>
TOTAL CURRENT LIABILITIES	4,756,293	5,019,818
DEFERRED COMPENSATION	517,634	401,437
LONG-TERM DEBT, NET OF CURRENT PORTION	2,101,953	4,625,759
COMMITMENTS AND CONTINGENCIES	<u>952,985</u>	<u>1,543,340</u>
TOTAL LIABILITIES	<u>8,328,865</u>	<u>11,590,354</u>
NET ASSETS		
Unrestricted	61,594,908	51,947,571
Temporarily Restricted	-	-
TOTAL NET ASSETS	<u>61,594,908</u>	<u>51,947,571</u>
TOTAL LIABILITIES AND NET ASSETS	<u><u>\$69,923,773</u></u>	<u><u>\$63,537,925</u></u>

The accompanying notes are an integral part of this statement.

FAMILY HEALTH CENTERS OF SOUTHWEST FLORIDA, INC.
STATEMENTS OF ACTIVITIES
Years ended December 31, 2016 and 2015

	2016		
	Unrestricted	Temporarily Restricted	Total
CHANGES IN NET ASSETS			
SUPPORT AND REVENUE			
Federal grants	\$ -	\$ 9,756,361	\$ 9,756,361
State grants	-	1,871,806	1,871,806
Medicaid, net	31,229,532	-	31,229,532
Medicare, net	1,910,675	-	1,910,675
Patient fees, net (including third party insurance)	7,653,157	-	7,653,157
Medicaid Meaningful Use Incentives	250,750	-	250,750
Clinical Incentives	307,724	-	307,724
Donations	149,437	-	149,437
Fundraising	-	-	-
Interest income	50,901	-	50,901
ACO shared savings and dividends	-	-	-
Gain on sale of investment	109,007	-	109,007
Gain on sale of property and equipment	80	-	80
Other income	268,966	777,856	1,046,822
TOTAL SUPPORT AND REVENUE	41,930,229	12,406,023	54,336,252
Net Assets Released from Restrictions	12,406,023	(12,406,023)	-
TOTAL	54,336,252	-	54,336,252
EXPENSES			
Program services	36,162,501	-	36,162,501
Supporting services	8,526,414	-	8,526,414
TOTAL EXPENSES	44,688,915	-	44,688,915
INCREASE (DECREASE) IN NET ASSETS	9,647,337	-	9,647,337
NET ASSETS, BEGINNING OF YEAR	51,947,571	-	51,947,571
NET ASSETS, END OF YEAR	<u>\$ 61,594,908</u>	<u>\$ -</u>	<u>\$ 61,594,908</u>

The accompanying notes are an integral part of this statement.

2015		
Unrestricted	Temporarily Restricted	Total
\$ -	\$ 8,971,705	\$ 8,971,705
-	448,047	448,047
30,058,457	-	30,058,457
1,377,030	-	1,377,030
5,358,742	-	5,358,742
420,750	-	420,750
-	-	-
50,565	-	50,565
3,058	-	3,058
80,235	-	80,235
115,793	-	115,793
4,522,771	-	4,522,771
11,313	-	11,313
<u>273,109</u>	<u>214,060</u>	<u>487,169</u>
42,271,823	9,633,812	51,905,635
<u>9,636,062</u>	<u>(9,636,062)</u>	<u>-</u>
<u>51,907,885</u>	<u>(2,250)</u>	<u>51,905,635</u>
33,560,003	-	33,560,003
<u>6,789,222</u>	<u>-</u>	<u>6,789,222</u>
<u>40,349,225</u>	<u>-</u>	<u>40,349,225</u>
11,558,660	(2,250)	11,556,410
<u>40,388,911</u>	<u>2,250</u>	<u>40,391,161</u>
<u>\$ 51,947,571</u>	<u>\$ -</u>	<u>\$ 51,947,571</u>

The accompanying notes are an integral part of this statement.

FAMILY HEALTH CENTERS OF SOUTHWEST FLORIDA, INC.
STATEMENT OF FUNCTIONAL EXPENSES
Year ended December 31, 2016

FUNCTIONAL EXPENSES	PROGRAM SERVICES					
	Medical	Dental	X-Ray	Laboratory	Pharmacy	Social Service
Salaries	\$10,830,219	\$ 7,796,392	\$ -	\$ 235,032	\$ 458,654	\$ 467,386
Fringe benefits	2,210,689	1,684,703	-	88,630	110,159	144,617
Contracted services	344,921	168	168,239	47,176	248,102	95
Supplies	993,235	1,155,805	-	28,468	431,681	25,795
Insurance	68,236	39,722	-	1,688	2,276	-
Rent/rental	204,990	142,613	-	7,363	4,855	10,942
Repairs and maintenance	204,500	198,808	-	733	3,525	369
Capital items < \$5,000	34,769	327,630	-	3,297	-	-
Utilities	59,304	24,884	-	-	-	-
Telecommunications	78,451	13,658	-	-	2,498	6,031
Travel	35,277	18,636	-	58	158	14,519
Interest	60,027	41,682	-	5,493	3,678	-
Dues and fees	13,888	4,557	-	-	2,120	486
Training	65,710	56,594	-	-	1,352	2,561
Security service	113,608	46,825	-	-	-	-
Advertising	198,504	122,571	-	-	-	-
Printing and publication	30,593	23,057	-	779	1,418	1,700
Recruitment	16,003	9,732	-	-	-	-
Postage and freight	-	-	-	-	57	-
Marketing	-	-	-	-	-	-
Other	2,000	1,545	-	-	-	1,666
Professional fees	-	-	-	-	-	-
Bank fees	-	-	-	-	-	-
	<u>15,564,924</u>	<u>11,709,582</u>	<u>168,239</u>	<u>418,717</u>	<u>1,270,533</u>	<u>676,167</u>
Depreciation and amortization	<u>529,718</u>	<u>460,222</u>	<u>-</u>	<u>13,756</u>	<u>18,168</u>	<u>-</u>
TOTAL EXPENSES	<u>\$16,094,642</u>	<u>\$12,169,804</u>	<u>\$ 168,239</u>	<u>\$ 432,473</u>	<u>\$ 1,288,701</u>	<u>\$ 676,167</u>

The accompanying notes are an integral part of this statement.

<u>PROGRAM SERVICES</u>			Total	<u>SUPPORTING SERVICES</u>		Total	Total
<u>Disease Management</u>	<u>Medical Records/ Patient Accounts</u>	<u>Occupancy & Maintenance</u>	<u>Program Services</u>	<u>Admin.</u>	<u>Fundraising</u>	<u>Supporting Services</u>	<u>Expenses</u>
\$ 251,974	\$ 216,454	\$ 210,703	\$ 20,466,814	\$ 5,604,484	\$ -	\$ 5,604,484	\$ 26,071,298
70,330	85,117	54,907	4,449,152	1,071,164	-	1,071,164	5,520,316
-	2,036,464	33,539	2,878,704	165,013	-	165,013	3,043,717
12,566	15,328	30,756	2,693,634	104,007	-	104,007	2,797,641
-	1,604	-	113,526	89,961	-	89,961	203,487
525	4,925	631,700	1,007,913	77,129	-	77,129	1,085,042
-	11,490	530,111	949,536	56,377	-	56,377	1,005,913
-	17,634	6,922	390,252	117,218	-	117,218	507,470
-	4,458	279,501	368,147	45,781	-	45,781	413,928
3,120	1,151	258,380	363,289	313,273	-	313,273	676,562
8,413	442	9,540	87,043	60,703	-	60,703	147,746
-	-	-	110,880	12,258	-	12,258	123,138
415	771	28,278	50,515	77,555	-	77,555	128,070
11,255	128	131	137,731	49,566	-	49,566	187,297
-	1,880	294,642	456,955	8,889	-	8,889	465,844
-	-	-	321,075	1,127	-	1,127	322,202
452	28	275	58,302	4,044	-	4,044	62,346
-	-	-	25,735	4,196	-	4,196	29,931
-	-	35	92	67,626	-	67,626	67,718
-	-	-	-	-	-	-	-
3,106	-	2,522	10,839	92,309	-	92,309	103,148
-	-	-	-	170,591	-	170,591	170,591
-	-	-	-	143,865	-	143,865	143,865
362,156	2,397,874	2,371,942	34,940,134	8,337,136	-	8,337,136	43,277,270
-	8,364	192,139	1,222,367	189,278	-	189,278	1,411,645
<u>\$ 362,156</u>	<u>\$ 2,406,238</u>	<u>\$ 2,564,081</u>	<u>\$ 36,162,501</u>	<u>\$ 8,526,414</u>	<u>\$ -</u>	<u>\$ 8,526,414</u>	<u>\$ 44,688,915</u>

The accompanying notes are an integral part of this statement.

FAMILY HEALTH CENTERS OF SOUTHWEST FLORIDA, INC.
STATEMENT OF FUNCTIONAL EXPENSES
Year ended December 31, 2015

FUNCTIONAL EXPENSES	PROGRAM SERVICES					
	Medical	Dental	X-Ray	Laboratory	Pharmacy	Social Service
Salaries	\$10,589,071	\$ 6,909,427	\$ 13,353	\$ 145,334	\$ 476,536	\$ 472,582
Fringe benefits	2,021,261	1,501,757	12,965	44,983	114,962	149,033
Contracted services	393,108	587	198,810	18,452	12,734	-
Supplies	832,450	1,018,476	-	17,652	183,412	11,082
Insurance	76,367	43,162	-	888	2,272	-
Rent/rental	218,429	72,060	1,396	8,906	12,733	8,919
Repairs and maintenance	342,973	224,424	-	4,248	11,994	2,494
Capital items < \$5,000	188,476	55,812	-	10,022	18,161	-
Utilities	62,882	23,664	-	-	-	-
Telecommunications	83,548	15,297	-	-	2,254	4,555
Travel	29,293	18,223	-	122	694	11,803
Interest	27,175	26,509	-	-	-	-
Dues and fees	12,506	3,510	-	-	4,026	81
Training	64,067	33,476	-	24	1,097	2,299
Security service	91,391	45,771	-	-	-	-
Advertising	217,089	130,203	-	-	-	-
Printing and publication	31,916	25,415	18	93	294	1,404
Recruitment	26,599	13,832	-	-	-	-
Postage and freight	-	-	-	-	63	-
Marketing	-	-	-	-	-	-
Other	127	-	-	-	-	7,208
Professional fees	-	-	-	-	-	-
Bank fees	<u>50,689</u>	<u>36,126</u>	<u>3,853</u>	<u>6,598</u>	<u>4,445</u>	<u>-</u>
	15,359,417	10,197,731	230,395	257,322	845,677	671,460
Depreciation and amortization	<u>506,754</u>	<u>345,232</u>	<u>-</u>	<u>-</u>	<u>6,577</u>	<u>-</u>
TOTAL EXPENSES	<u>\$15,866,171</u>	<u>\$10,542,963</u>	<u>\$ 230,395</u>	<u>\$ 257,322</u>	<u>\$ 852,254</u>	<u>\$ 671,460</u>

The accompanying notes are an integral part of this statement.

<u>PROGRAM SERVICES</u>			Total	<u>SUPPORTING SERVICES</u>		Total	Total
<u>Disease Management</u>	<u>Medical Records/ Patient Accounts</u>	<u>Occupancy & Maintenance</u>	<u>Program Services</u>	<u>Admin.</u>	<u>Fundraising</u>	<u>Supporting Services</u>	<u>Expenses</u>
\$ 190,561	\$ 246,729	\$ 252,093	\$ 19,295,686	\$ 4,395,887	\$ -	\$ 4,395,887	\$ 23,691,573
45,692	75,091	41,283	4,007,027	742,541	-	742,541	4,749,568
-	2,116,358	30,426	2,770,475	121,038	-	121,038	2,891,513
2,707	8,606	18,554	2,092,939	114,135	-	114,135	2,207,074
-	1,880	-	124,569	91,398	-	91,398	215,967
-	3,975	625,960	952,378	88,811	-	88,811	1,041,189
-	16,359	424,225	1,026,717	87,676	-	87,676	1,114,393
573	25,851	11,779	310,674	27,511	-	27,511	338,185
-	7,319	239,994	333,859	44,940	-	44,940	378,799
1,769	219	272,978	380,620	198,042	-	198,042	578,662
7,334	60	12,176	79,705	63,569	-	63,569	143,274
-	-	-	53,684	67,414	-	67,414	121,098
1,195	604	10,196	32,118	59,336	300	59,636	91,754
1,745	-	167	102,875	56,247	-	56,247	159,122
-	-	229,205	366,367	288	249	537	366,904
-	-	-	347,292	30,335	-	30,335	377,627
516	84	30	59,770	6,930	-	6,930	66,700
-	-	-	40,431	3,147	-	3,147	43,578
-	11	286	360	55,134	-	55,134	55,494
-	-	-	-	-	-	-	-
10,324	-	3,125	20,784	142,970	1,342	144,312	165,096
-	-	-	-	120,215	-	120,215	120,215
-	-	-	101,711	78,017	-	78,017	179,728
262,416	2,503,146	2,172,477	32,500,041	6,595,581	1,891	6,597,472	39,097,513
-	8,364	193,035	1,059,962	191,750	-	191,750	1,251,712
<u>\$ 262,416</u>	<u>\$ 2,511,510</u>	<u>\$ 2,365,512</u>	<u>\$ 33,560,003</u>	<u>\$ 6,787,331</u>	<u>\$ 1,891</u>	<u>\$ 6,789,222</u>	<u>\$ 40,349,225</u>

The accompanying notes are an integral part of this statement.

FAMILY HEALTH CENTERS OF SOUTHWEST FLORIDA, INC.
STATEMENTS OF CASH FLOWS
Years ended December 31, 2016 and 2015

	<u>2016</u>	<u>2015</u>
CASH FLOWS FROM		
OPERATING ACTIVITIES		
Cash received from grants, donors, patients and other operating activities	\$ 53,203,141	\$ 49,027,897
Cash paid to suppliers and employees	(43,934,774)	(37,481,906)
Interest paid	(123,138)	(121,098)
Interest received	<u>50,901</u>	<u>80,235</u>
NET CASH PROVIDED BY OPERATING ACTIVITIES	<u>9,196,130</u>	<u>11,505,128</u>
CASH FLOWS FROM		
INVESTING ACTIVITIES		
Cash received from sale of property and equipment	80	13,925
Cash received from sale of investments	75,447	5,271,646
Cash paid for investment in LLC (additional units)	-	-
Payments for property and equipment	(1,004,725)	(6,223,272)
Cash paid to LLC for capital (note receivable)	-	(542,808)
Cash received from LLC for repayment of capital (note receivable)	<u>-</u>	<u>542,808</u>
NET CASH USED IN INVESTING ACTIVITIES	<u>(929,198)</u>	<u>(937,701)</u>
CASH FLOWS FROM FINANCING ACTIVITIES		
Repayments of principal on leases payable	-	-
Repayments of principal on mortgage payable	(2,613,424)	(2,139,671)
Proceeds from issuance of long-term debt	-	2,500,000
Proceeds from line of credit borrowings	-	-
Repayments of line of credit borrowings	<u>-</u>	<u>-</u>
NET CASH PROVIDED BY / (USED IN) FINANCING ACTIVITIES	<u>(2,613,424)</u>	<u>360,329</u>
NET INCREASE (DECREASE) IN CASH	5,653,508	10,927,756
CASH, BEGINNING OF YEAR	<u>32,812,145</u>	<u>21,884,389</u>
CASH, END OF YEAR	<u>\$ 38,465,653</u>	<u>\$ 32,812,145</u>

The accompanying notes are an integral part of this statement.

**RECONCILIATION OF INCREASE IN
NET ASSETS TO NET CASH PROVIDED
BY OPERATING ACTIVITIES**

	<u>2016</u>	<u>2015</u>
Increase in net assets	\$ 9,647,337	\$11,556,410
Adjustments to reconcile increase in net assets to net cash provided by operating activities:		
Depreciation	1,411,645	1,251,712
Gain on sale of property and equipment	(80)	(11,313)
Gain on sale of investment	(75,447)	(4,522,771)
(Increase) decrease in patient receivables, net	(1,072,639)	207,379
(Increase) decrease in grant receivables	17,893	(18,188)
(Increase) decrease in other receivables	(64,088)	48,934
(Increase) decrease in inventory	(26,600)	5,361
(Increase) decrease in prepaids and deposits	(126,073)	(96,010)
Increase (decrease) in accounts payable	(124,706)	815,440
Increase (decrease) in accrued liabilities	215,551	733,718
Increase (decrease) in deferred revenue	(16,308)	(8,884)
Increase (decrease) in commitments/contingencies	<u>(590,355)</u>	<u>1,543,340</u>
	<u>(451,207)</u>	<u>(51,282)</u>
NET CASH PROVIDED BY OPERATING ACTIVITIES	<u>\$ 9,196,130</u>	<u>\$11,505,128</u>

NON-CASH TRANSACTIONS

Family Health Centers also received donated office space in the amount of \$36,000 and \$36,000 for the years ended December 31, 2016 and 2015, respectively.

NOTE A - ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Organization and nature of operations

Family Health Centers of Southwest Florida, Inc. (Family Health Centers) is a Florida not-for-profit corporation established in 1960 to provide comprehensive primary and preventive health care services in Lee, Hendry and Charlotte Counties. Specifically, the primary purpose of Family Health Centers is to provide available, accessible, and affordable quality health care to anyone seeking these services. The services are available to the general public but are substantially utilized by those qualified under the various "low income" standards and by domestic, agricultural, migrant and seasonal workers, most of whom are disadvantaged. Charges for services are based upon a patient's ability to pay in accordance with federal guidelines.

The following is a summary of the significant accounting policies used in the preparation of these financial statements:

Basis of accounting

Family Health Centers prepares its financial statements on the accrual basis of accounting in conformity with accounting principles generally accepted in the United States of America.

Financial statement presentation

The accounting and reporting policies of Family Health Centers are in accordance with the auditing and accounting standards issued by the American Institute of Certified Public Accountants in its audit guide, "Not-for-Profit Organizations," and the accounting standards issued by the Financial Accounting Standards Board (FASB) in the Accounting Standards Codification (ASC).

Cash and cash equivalents

Cash is stated at the book balance. Cash is comprised of cash on hand, depository accounts and money market accounts. Balances, at times, in certain of these accounts, are invested at the end of each day in overnight repurchase agreements (sweep). These repurchase agreements are considered a cash equivalent. Family Health Centers maintains cash balances at various financial institutions to reduce its concentration of risk and to maximize its benefit from FDIC insurance coverage. The cash and cash equivalents, at each institution, are insured by the Federal Deposit Insurance Corporation up to \$250,000 per institution.

**NOTE A - ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING
POLICIES, CONTINUED**

Cash and cash equivalents, continued

For purposes of the statements of cash flows, Family Health Centers considers all highly liquid investments with an original maturity of three months or less to be cash equivalents.

Investments

From time to time, Family Health Centers acquires marketable securities from donors that consist of investments in common stock of public companies. Such marketable securities are carried at cost, which approximates market value. Gains and losses are determined using the specific identification method when securities are sold or matured. Due to the type and nature of most investments held, any gain or loss is reflected as interest income unless individually determined to be material. Unrealized appreciation or depreciation of the investments is considered immaterial and therefore not separately reflected in the financial statement. Related investment fees are considered insignificant. No such investments were held at December 31, 2016 and 2015 except for the investment in LLC (which is discussed in Note F) and investment in ACO (which is discussed in Note G) to these financial statements.

Inventory

Inventories of pharmaceutical and consumable supplies on hand are stated at the lower of cost or market using the first-in first-out inventory method. Inventory balances are substantially comprised of pharmaceutical goods.

Property and equipment

Property and equipment (fixed assets) are recorded at cost, or if donated, at fair market value on the date of donation. 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, Family Health Centers reports expirations of donor restrictions when the donated or acquired assets are placed in service as instructed by the donor. Family Health Centers reclassifies temporarily restricted net assets to unrestricted net assets at that time. Family Health Centers capitalizes assets with a cost or donated fair value of \$5,000 or more and a useful life of one year or more.

**NOTE A - ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING
POLICIES, CONTINUED**

Property and equipment, continued

Depreciation is computed using the straight-line method over the estimated useful lives of the assets. The cost of assets retired or sold, together with the related accumulated depreciation, is removed from the accounts and any gain or loss on disposition is credited or charged to earnings. For the years ended December 31, 2016 and 2015, debt related interest costs were capitalized as part of property and equipment in the amount of \$0 and \$0, respectively.

Property and equipment held under capital leases are recorded at the present value of minimum lease payments over the term of the leases and amortized using the straight-line method over their estimated useful lives.

The Federal government, as well as the State of Florida has rights and/or security interests over certain property and equipment acquired with grant funds, as well as the proceeds from the disposition of such assets.

Impairment of fixed assets

Family Health Centers adheres to the FASB ASC 360-10-50-2 (formerly Financial Accounting Standards Board (FASB) Statement of Financial Accounting Standards (SFAS) No. 144), "Accounting for the Impairment or Disposal of Long-Lived Assets"). FASB ASC 360-10-50-2 requires, among other things, that entities identify events or changes in circumstances which indicate that the carrying amount of an asset may not be recoverable.

There was no effect on Family Health Centers' financial statements resulting from FASB ASC 360-10-50-2 for the years ended December 31, 2016 or 2015.

**NOTE A - ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING
POLICIES, CONTINUED**

Recognition of donor restrictions

Support that is restricted by the donor is reported as an increase in unrestricted net assets if the restriction expires in the reporting period in which the support is recognized. All other donor-restricted support is reported as an increase in temporarily or permanently restricted net assets, depending on the nature of the restriction. When a restriction expires, or when the purpose restriction is met, temporarily restricted net assets are reclassified to unrestricted net assets. At December 31, 2016 and 2015, Family Health Centers had no permanently restricted net assets. At December 31, 2016 and 2015, Family Health Centers held no temporarily restricted net assets.

Current vulnerability due to certain concentrations

Family Health Centers is a multi-location family medical practice including dental operations. Family Health Centers' operations are in Lee, Hendry and Charlotte Counties. In addition, Family Health Centers operates in a heavily regulated environment. The operations of Family Health Centers are subject to the administrative directives, rules and regulations of federal, state and local regulatory agencies, including, but not limited to, the U.S. Department of Health & Human Services (HHS). Such administrative directives, rules and regulations are subject to change by an act of Congress, an administrative change mandated by the HHS or other federal, state and local regulatory agencies. Mandated changes may occur with little notice or inadequate funding to pay for the related cost, including the additional administrative burden, to comply with a change.

Functional expenses

Family Health Centers allocates and classifies its expenses on a functional basis by cost center among its various program and supporting services. The expenses that are directly attributable to Family Health Centers' programs have been charged directly to the programs. Substantially all the supporting services expenses incurred by Family Health Centers directly benefit the programs; however, no allocation of these supporting services costs have been made by Family Health Centers, as no objective allocation basis is available.

**NOTE A - ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING
POLICIES, CONTINUED**

Income taxes

Family Health Centers is exempt from federal income taxes under Section 501(c)(3) of the Internal Revenue Code. Family Health Centers is not classified as a private foundation within the meaning of Section 509(a) of the Code.

The Internal Revenue Code provides for taxation of unrelated business income under certain circumstances. Family Health Centers reports no unrelated business taxable income; however, such status is subject to final determination upon examination of the related tax returns by the appropriate taxing authorities. The informational tax returns (Form 990) for the prior three (3) fiscal years remain open for examination.

Accounting for uncertainty in income tax items

The Financial Accounting Standards Board has issued guidance on accounting for uncertainty in income taxes and Family Health Centers has adopted this guidance. Family Health Centers has evaluated its tax positions and any estimates utilized in its tax returns, and concluded that it has taken no uncertain tax positions that require adjustment to the financial statements to comply with the provisions of this guidance. Interest and penalties associated with uncertain tax positions will be recognized in income tax expense, if required.

Advertising costs

It is the policy of Family Health Centers to expense advertising costs when incurred.

Donated materials and services

Family Health Centers receives donated office space (rent). The market value of such rent is reflected as donations revenue and rent expense in an equal amount. Also, a number of other volunteers, including the Board of Directors, donate significant amounts of their time and expertise to Family Health Centers and its programs. No amounts have been recorded for donated services inasmuch as no objective basis is available to measure the value of such services.

**NOTE A - ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING
POLICIES, CONTINUED**

Management estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires Family Health Centers to make estimates and assumptions that affect the reported amounts of assets, liabilities and net assets, and disclosure of contingent assets and liabilities at December 31, 2016 and 2015, and revenues and expenses during the years ended December 31, 2016 and 2015. Actual results could differ from those estimates.

Subsequent events

Subsequent events have been evaluated through April 6, 2017, which is the date the financial statements were available to be issued.

Fair value measurements

Family Health Centers follows Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) Topic 820 "Fair Value Measurements and Disclosures". The standard prioritized the use of market-based information and established a three-level hierarchy based on transparency of information, such as the pricing source, used in the valuation of the asset or liability. As required by the standard, assets and liabilities carried at fair value on a recurring basis are classified in one of the following three-level hierarchy categories:

Level 1: Quoted market prices (unadjusted) in active markets for identical assets or liabilities that the entity has the ability to access at the measurement date.

Level 2: Observable inputs or unobservable inputs that are corroborated by market data.

Level 3: Unobservable inputs that are not corroborated by market data.

NOTE B - CASH, CASH EQUIVALENTS AND INVESTMENTS

Cash and cash equivalents consist of the following at December 31:

	<u>2016</u>	<u>2015</u>
Cash on hand	\$ 4,994	\$ 4,594
Depository, savings and money market accounts	37,189,752	31,538,554
Money market deposit accounts through Insured Cash Sweep (ICS) Service	<u>1,270,907</u>	<u>1,268,997</u>
	<u>\$ 38,465,653</u>	<u>\$ 32,812,145</u>

Restricted cash totaling \$955,485 and \$1,571,956 at December 31, 2016 and 2015, respectively, was comprised of balances reflected as deferred revenue (less any corresponding receivable), contingent liabilities and temporarily restricted net assets.

Insured Cash Sweep (ICS) Service

Family Health Centers has entered into a repurchase agreement - Insured Cash Sweep (ICS) Deposit Placement Agreement with a financial institution. The agreement allows the financial institution to transfer or "sweep" funds from a Family Health Centers account. The funds are placed in money market deposit accounts at ICS Network depository institutions (each a "Destination Institution"). Funds placed at each Destination Institution will not exceed the Federal Deposit Insurance Corporation (FDIC) maximum amounts per financial institution, which is currently set at \$250,000. Funds held at ICS Destination Institutions are considered part of the operating accounts of Family Health Centers and are considered cash and cash equivalents.

Concentration of credit risk

Family Health Centers maintains its cash and cash equivalents as well as its money market accounts and ICS accounts in financial institutions. These assets are federally insured up to \$250,000 per financial institution. Family Health Centers' cash accounts, money market accounts and accounts at ICS Destination Institutions are categorized as follows at December 31:

NOTE B - CASH, CASH EQUIVALENTS AND INVESTMENTS, CONTINUED

Concentration of credit risk, continued

	<u>Bank Balance</u>	
	<u>2016</u>	<u>2015</u>
Amount covered by Federal Depository Insurance	\$ 757,155	\$ 756,884
Amount covered by Federal Depository Insurance through Insured Cash Sweep (ICS) Service	1,270,907	1,268,997
Amount uninsured	<u>36,728,981</u>	<u>31,327,632</u>
	<u>\$ 38,757,043</u>	<u>\$ 33,353,513</u>

NOTE C - PATIENT RECEIVABLES

Patient receivables consist of the following at December 31:

	<u>2016</u>	<u>2015</u>
Patient receivables	\$ 6,295,333	\$ 4,669,564
Less allowance for doubtful accounts and contractual adjustments	<u>(1,709,948)</u>	<u>(1,156,818)</u>
Net receivables	<u>\$ 4,585,385</u>	<u>\$ 3,512,746</u>

Family Health Centers considers bad debt expense a function of the contractual adjustment and, therefore, records contractual expense against its net patient fees. The contractual adjustments for the years ended December 31, 2016 and 2015, were \$1,005,187 and \$860,554, respectively.

A significant amount of Family Health Centers' patient service revenue is derived from Medicaid, Medicare, third-party reimbursement programs and private insurance carriers. Patient receivables are comprised of receivables from Medicaid, Medicare, private insurance, contracts and self pay. Payments under the program for services are based on established amounts for the type of service provided. The difference between the charge for the service and the amount received is recorded as a contractual adjustment and written off. Patient receivables are reflected net of anticipated contractual adjustments and bad debt expense. Collection of these receivables is ultimately dependent upon approval to pay by the appropriate payor/carrier/insurer. Family Health Centers establishes an allowance amount based upon known circumstances and collection history. Patient receivables are measured at fair value as determined net of bad debt charge offs, contractual adjustments and adjustments for an allowance amount.

NOTE D - GRANT RECEIVABLES

Grant receivables consist of the following at December 31:

	<u>2016</u>	<u>2015</u>
Federal and state grants:		
<u>U.S. Dept. of Health and Human Services</u>		
Centers for Medicare and Medicaid Services (CMS)		
Affordable Care Act (ACA) - New and Expanded Services	\$ 13,218	\$ 37,298
Centers for Disease Control and Prevention (CDC)		
Capacity Building Assistance to Strengthen Public Health		
Immunization Infrastructure and Performance	2,203	8,045
<u>Florida Department of Health</u>		
Community Public Health - Charlotte County Dental - COHD6	53,840	58,387
Community Public Health - Lee County Dental - COHD6	56,424	51,980
	<u>125,685</u>	<u>155,710</u>
Local grants and contracts:		
American Cancer Society (Walgreens CHANGE)	12,132	-
	<u>12,132</u>	<u>-</u>
Total grants receivable	<u>\$ 137,817</u>	<u>\$ 155,710</u>

Management believes the net grant receivables to be fully collectible at both December 31, 2016 and 2015.

NOTE E - ASSETS HELD IN TRUST

Family Health Centers (employer) has IRC Section 457(b) and 457(f) deferred compensation plans for a predetermined group of highly compensated management employees. Amounts deferred and earnings attributable to the deferrals are maintained as assets of Family Health Centers and are subject to the claims of the employer's general creditors. This treatment of Plan assets as the property of the employer satisfies the requirement that the Plan be unfunded in order to be exempt from ERISA's minimum participation and vesting provisions, and other ERISA requirements. The Plan allows for contributions from salary reduction agreements and non-elective employer contributions.

All 457(b) and 457(f) Plan assets are held by a third-party trustee, who is also the administrator of the Plan. Plan assets held in trust are carried by Family Health Centers at fair value and are comprised of the following at December 31:

	<u>2016</u>	<u>2015</u>
457(b) deferred compensation plan	\$ 409,326	\$ 327,169
457(f) deferred compensation plan	108,308	74,268
	<u>\$ 517,634</u>	<u>\$ 401,437</u>

These amounts are also included in these financial statements as an offsetting liability.

NOTE F - INVESTMENT IN LLC

On May 24, 2007, Family Health Centers entered into a subscription agreement to purchase 6,370 units of a Florida limited liability company ("LLC"), Prestige Health Choice, LLC, that provides Medicaid managed care services to Florida residents. The agreement called for Family Health Centers to initially purchase 3,370 units (the "First Tranche") of the LLC at \$20 per unit, for a total initial investment of \$67,400.

The agreement also called for the remaining 3,000 units (the "Second Tranche") to be purchased at \$100 per unit, for a total investment in the Second Tranche of \$300,000. The Second Tranche was payable to the LLC as follows: 50% of the Second Tranche was due in five (5) monthly payments of \$30,000 on or before September 30, 2007. The remaining 50% of the Second Tranche was due in seven (7) monthly payments of \$21,429 on or before April 30, 2008.

During the year ended December 31, 2007, Family Health Centers purchased the First Tranche and made eight (8) monthly payments towards the Second Tranche for a total investment in the LLC of \$281,686 at December 31, 2007.

During the year ended December 31, 2008, Family Health Centers made the remaining four (4) monthly payments towards the Second Tranche. Family Health Centers' total investment in the LLC was \$367,400 at December 31, 2008.

During the year ended December 31, 2009, Family Health Centers paid \$100,000 to purchase 800 additional units at \$125 per unit. Therefore, Family Health Centers' total investment in the LLC was \$467,400 at December 31, 2011 and 2010.

On December 31, 2012, the members of Prestige Health Choice, LLC agreed to sell forty percent (40%) of the equity interests of the LLC to Florida True Health, Inc. (the "Purchaser"). Pursuant to the terms and conditions of the Purchase Agreement, during the period commencing on the closing date (December 31, 2012) and ending on December 31, 2020 (the "Option Period"), the Purchaser has the option to require the members of the LLC to sell all of their equity interests of the LLC, at which point the members would have no equity interests in the LLC.

NOTE F - INVESTMENT IN LLC, CONTINUED

In December 2012, Family Health Centers received proceeds totaling \$1,166,715 in exchange for selling 40% of its equity interest in the LLC. Using a weighted average calculation, Family Health Centers reduced its basis in the LLC investment by \$186,960, resulting in a \$979,755 gain on the sale.

As part of the sales transaction, funds were withheld from Class A members, including Family Health Centers, to cover any capital deficiencies. In May, 2013, it was determined that no capital deficiencies were present; therefore, \$89,300 was released to Family Health Centers and was disclosed as a gain on the sale, as shown on the year ended December 31, 2013 Statement of Activities.

As such, effective the start of business on January 1, 2013, Class A units (totaling 600,000) and Class B units (totaling 400,000) were issued pursuant to the minority interest transaction. The Purchaser acquired the 400,000 Class B units in the LLC, while the selling members held the 600,000 Class A units.

On January 1, 2013, Family Health Centers owned 31,039 Class A units, which comprised 3.10% of the LLC.

During the year ended December 31, 2014, Family Health Centers received an additional \$706,952 relating to the December 2012 sales transaction as follows:

	<u>Amount</u>
Conditional consideration payments based on ITN awards of 8 Florida Managed Care Medicaid Regions	\$ 397,237
Release of IBNR holdbacks and overages	91,958
Release of escrow monies previously set aside for outstanding legal claims	<u>217,757</u>
Gain on Sale of Investment, Year Ended December 31, 2014	<u>\$ 706,952</u>

In June 2014, Family Health Centers paid \$468,435 to purchase an additional 14,195 units from another Class A investor at \$33 per unit. Therefore, at December 31, 2014, Family Health Centers had a total investment in LLC of \$748,875 and owned 45,234 Class A units, which comprised 4.523% ownership of the LLC.

NOTE F - INVESTMENT IN LLC, CONTINUED

No investment income was received from the LLC during the year ended December 31, 2014.

In February 2015, investors in the LLC provided the LLC with \$6 million in additional capital. The additional capital was required by the Agency for Health Care Administration ("AHCA"), the agency regulating the LLC. Capital call allocations were based on the investors' respective ownership percentage. Based on Family Health Centers' 4.523% ownership interest in the LLC, Family Health Centers paid the LLC capital funds totaling \$271,404. In return for consideration received, on February 27, 2015, the LLC issued a Subordinated Surplus Promissory Note in the amount of \$271,404 to Family Health Centers.

Furthermore, in April 2015, investors in the LLC provided the LLC with additional capital. In return for consideration received, on April 30, 2015, the LLC issued a second Subordinated Surplus Promissory Note in the amount of \$271,404 to Family Health Centers.

For both Subordinated Promissory Notes, interest shall accrue on the unpaid principal balance at an annual rate of eight percent (8%). Repayment of the principal balances is subject to approval by the Agency for Health Care Administration ("AHCA") prior to payment.

In October 2015, Family Health Centers received proceeds totaling \$564,520 as repayment of the Subordinated Promissory Note principal balances (totaling \$542,808) and accumulated interest (totaling \$21,712). The accumulated interest is included in Interest Income on the Statement of Activities for the year ended December 31, 2015.

In October 2015, Family Health Centers received proceeds totaling \$5,271,646 in exchange for selling its remaining 45,234 Class A shares (4.523%) in the LLC. Family Health Centers reduced its basis in the LLC investment to \$0 (a basis reduction of \$748,875), resulting in a \$4,522,771 gain on the sale.

In October 2016, Family Health Centers received an escrow release in the amount of \$74,477. The funds were deposited by Family Health Centers on October 14, 2016. Family Health Centers also received a distribution related to 2015 Prestige net income of \$33,560 which was deposited by Family Health Centers March 2, 2017.

NOTE G - INVESTMENT IN ACO

On July 18, 2013, Family Health Centers entered into an agreement to purchase 3,250 units of a Florida Limited Liability Company, Health Choice Care, LLC. The agreement called for Family Health Centers to purchase the 3,250 units at \$100 per unit, for a total investment of \$325,000.

Health Choice Care, LLC is an Accountable Care Organization ("ACO") created to participate in the Medicare Shared Savings Program, which encourages participants and providers to adhere to quality improvement and evidence based medicine with respect to health care services provided by participating providers.

Participants may be eligible for distributions of Shared Savings surpluses generated from the successful management of the local enrollee population. Participants must meet certain thresholds, as determined by the ACO, for performance and quality and cost metrics established by the Medicare Shared Savings program and the ACO. Participant bonuses will be paid within 90 (ninety) days of when they become available to the ACO from Centers for Medicare and Medicaid Services (CMS) in a manner that is compliant with all CMS rules and regulations.

The ACO is under contract with and is regulated by the Centers for Medicare and Medicaid Services (CMS). Participants are not directly at risk to CMS.

At December 31, 2016 and 2015, Family Health Centers owned 3,250 units, which comprised 8.49% of the units issued by the ACO.

Investment in the ACO is accounted for using the cost method.

According to the subscription agreement, investments (level 3) in the ACO involve significant risks, including the risk of loss of the entire investment if the ACO is unable to successfully implement its business strategy and plans. Potential liability to Family Health Centers, if any, is limited to the investment made for the purchase of units through the subscription agreement. At December 31, 2016 and 2015, Family Health Centers believes its investment's fair value to be approximately its recorded value (cost) of \$325,000, and has the intent and ability to hold the investment for the foreseeable future. The investment was made to position Family Health Centers to serve Medicare patients under the AHCA requirements.

FAMILY HEALTH CENTERS OF SOUTHWEST FLORIDA, INC.
NOTES TO THE FINANCIAL STATEMENTS
December 31, 2016 and 2015

NOTE G - INVESTMENT IN ACO, CONTINUED

Revenue received from the ACO during the years ended December 31, 2016 and 2015, totaled \$0 and \$115,793 (comprised of \$65,000 dividend income and \$50,793 in shared savings), respectively.

NOTE H - PROPERTY AND EQUIPMENT

Property and equipment consists of the following at December 31:

	<u>2016</u>	<u>2015</u>
Land	\$ 5,162,548	\$ 5,162,548
Construction in process	97,614	3,377,042
Buildings and improvements	24,648,757	21,004,383
Leasehold improvements	1,716,809	1,716,809
Furniture and equipment	2,377,072	2,008,448
Vehicles	<u>154,953</u>	<u>132,242</u>
	34,157,753	33,401,472
Accumulated depreciation	<u>(8,773,363)</u>	<u>(7,361,718)</u>
	<u>\$ 25,384,390</u>	<u>\$ 26,039,754</u>

Depreciation expense for the years ended December 31, 2016 and 2015, was \$1,411,645 and \$1,251,712, respectively.

NOTE I - ACCRUED LIABILITIES

Accrued liabilities consist of the following at December 31:

	<u>2016</u>	<u>2015</u>
Accrued compensated absences	\$ 1,129,202	\$ 1,098,215
Accrued salaries and wages	925,538	787,544
Accrued bonuses	490,567	441,723
Accrued pension	479,909	492,210
Payroll taxes and other liabilities	<u>155,333</u>	<u>145,306</u>
	<u>\$ 3,180,549</u>	<u>\$ 2,964,998</u>

FAMILY HEALTH CENTERS OF SOUTHWEST FLORIDA, INC.
NOTES TO THE FINANCIAL STATEMENTS
December 31, 2016 and 2015

NOTE J - DEFERRED REVENUE

Deferred revenue consists of the following at December 31:

	<u>2016</u>	<u>2015</u>
Federal and state grants	\$ -	\$ -
	<u>-</u>	<u>-</u>
Local grants and contracts:		
American Cancer Society Grant	2,500 (2)	-
LIP Funds	9,808 (2)	-
Walgreens for CHANGE Grant	<u>-</u>	<u>28,616 (1)</u>
	<u>12,308</u>	<u>28,616</u>
Total deferred revenue	<u>\$ 12,308</u>	<u>\$ 28,616</u>

(1) included in restricted cash at December 31, 2015

(2) included in restricted cash at December 31, 2016

NOTE K - LINE OF CREDIT

In December 2015, Family Health Centers renewed an existing \$1,000,000 line of credit (LOC) with a financial institution, with interest payable at the Wall Street Journal Prime Rate. At December 31, 2016, the interest rate was (at PRIME) 3.75%. The line of credit is uncollateralized and expires on December 13, 2017. The outstanding balance on the line of credit at December 31, 2016 and 2015 was \$0 and \$0, respectively. Family Health Centers borrowed no amounts on the line of credit during the years ended December 31, 2016 or 2015.

Family Health Centers also has an informal commitment from a financial institution for an additional \$500,000 line of credit should the need exceed the \$1,000,000 LOC.

FAMILY HEALTH CENTERS OF SOUTHWEST FLORIDA, INC.
NOTES TO THE FINANCIAL STATEMENTS
December 31, 2016 and 2015

NOTE L - LONG-TERM DEBT-CONTINUED

Long-term debt consists of the following obligations at December 31:

	<u>2016</u>	<u>2015</u>
Mortgage payable (\$2,500,000), dated February 1, 2014, to a financial institution, payable in 59 monthly installments of \$14,240, including principal and interest, at a fixed rate of 3.25%. The obligation is collateralized by the respective real property in Bonita and assignment of rents. Final payment is a balloon payment of all remaining outstanding principal (\$2,034,315) due February 1, 2019.	\$ -	\$ 1,133,419
Mortgage payable (\$3,802,167), dated December 18, 2015, to a financial institution, payable in 59 monthly installments of \$23,364, including principal and interest, at a fixed rate of 3.25%. The obligation is collateralized by the respective real property in Cape Coral. Final payment is a balloon payment of all remaining outstanding principal (\$2,976,423) due December 18, 2020.	<u>2,264,662</u>	<u>3,744,667</u>
	2,264,662	4,878,086
Current Portion	<u>(162,709)</u>	<u>(252,327)</u>
Long-Term Portion	<u>\$ 2,101,953</u>	<u>\$ 4,625,759</u>

Interest expense related to long-term debt was \$123,138 and \$121,098 for the years ended December 31, 2016 and 2015, respectively.

NOTE L - LONG-TERM DEBT, CONTINUED

Principal maturities of long-term debt are as follows:

Years Ending December 31	Amount
2017	\$ 162,709
2018	168,152
2019	173,777
2020	<u>1,760,024</u>
	<u>\$ 2,264,662</u>

NOTE M - SCHEDULE OF NET ASSETS

Net assets are available for the following purposes at December 31:

	<u>2016</u>	<u>2015</u>
Unrestricted - undesignated:		
General operations	\$46,220,235	\$37,321,754
Unrestricted - designated:		
Designated for capital assets	4,182,679	4,069,023
Designated for future operations	<u>11,191,994</u>	<u>10,556,794</u>
Total Unrestricted Net Assets	61,594,908	51,947,571
Temporarily Restricted Net Assets	<u>-</u>	<u>-</u>
	<u>\$61,594,908</u>	<u>\$51,947,571</u>

Designations of net assets are voluntary segregations of unrestricted net assets for specific purposes, projects or investments by the Board of Directors and may be amended at anytime by action of the Board of Directors.

NOTE N - FUNDRAISING COSTS

Family Health Centers incurred fundraising costs totaling \$0 and \$1,891 during the years ended December 31, 2016 and 2015, respectively.

FAMILY HEALTH CENTERS OF SOUTHWEST FLORIDA, INC.
NOTES TO THE FINANCIAL STATEMENTS
December 31, 2016 and 2015

NOTE O - DONATIONS

Donations consist of the following at December 31:

	<u>2016</u>	<u>2015</u>
Donated office space	\$ 36,000	\$ 36,000
Cash donations	<u>113,437</u>	<u>14,565</u>
	<u>\$ 149,437</u>	<u>\$ 50,565</u>

NOTE P - COMMITMENTS AND CONTINGENCIES

Family Health Centers is currently receiving, and has received in the past, grants, Medicare, Medicaid and other third-party reimbursement funds which are subject to special compliance audits by the grantor, Medicare, Medicaid and other third-party agencies that provide these reimbursements. These audits may result in disallowed expense amounts.

A contingent liability totaling \$1,543,340 is reflected in the financial statements at December 31, 2015. This balance consists of Medicaid Primary Care Rate Increase (PCRI) payments received in 2014 and 2015 from various Medicaid Managed Care Organizations (MCOs). In January 2016, various Florida Federally Qualified Health Centers (FQHCs) received PCRI refund requests from the MCO. Family Health Centers received three (3) PCRI refund requests totaling \$31,766 from the aforementioned MCO. Based on advice from Family Health Centers' provider network's legal counsel, letters were sent in February 2016 to the MCO disputing the refund requests. The letters requested the MCO provide backup documentation for each claim included in the refund requests in order to determine if there was, in fact, an overpayment. The letters also informed the MCO that, pending resolution of this dispute, no future reduction in claims payments is allowable, in accordance with Section 641.3155(5)(a)(3), Florida Statutes. To date, Family Health Centers has not received any requested documentation from the MCO or any additional requests for PCRI refunds.

NOTE P - COMMITMENTS AND CONTINGENCIES, CONTINUED

The Florida Association of Community Health Centers (FACHC) has informed Florida FQHCs that it is their belief, based upon a review of the Federal Register Vol. 77 (42 CFR Parts 438, 441 and 447), that FQHCs are not eligible to receive PCRI payments. Therefore, due to the uncertainties regarding potential repayment of PCRI funds received, Family Health Centers has elected to record a contingent liability in the financial statements for all PCRI funds received through December 31, 2015.

A contingent liability totaling \$952,985 is reflected in the financial statements at December 31, 2016.

Due to the continued uncertainties regarding potential repayment of PCRI funds received, Family Health Centers continues to record a contingent liability in the financial statements for all PCRI funds received through December 31, 2016 less any recoupment.

During 2016, Staywell recouped \$833,613 through reductions in Capitation payments due to Family Health Centers for the months of August-November 2016.

Remaining Balance:

	<u>Amount</u>
Prestige	\$ 941,472
Sunshine	11,238
Staywell	<u>275</u>
	<u>\$ 952,985</u>

NOTE Q - PENSION PLANS

401(a) Thrift Profit Sharing Plan

In January 2011, Family Health Centers adopted a defined contribution plan (formerly 401(a) Money Purchase Defined Contribution Plan), effective February 1, 2011, which is available to all its employees provided they are at least 21 years of age and have completed one year of qualified service. The Plan requires employer contributions of 5% of the participant's (employee's) qualified compensation and allows Family Health Centers to make additional discretionary contributions as approved. Participants vest over a five-(5) year period of qualified service. The Plan is administered by a third party. All assets of the Plan are held by a third-party trustee.

The total 5% required contributions to the 401(a) Thrift Profit Sharing Plan for the years ended December 31, 2016 and 2015, were \$817,801 (net of forfeitures) and \$922,719, respectively. There was no unfunded liability at December 31, 2016 or 2015.

At their January 27, 2016 meeting, the Board of Directors approved a motion to give eligible employees a discretionary contribution of 2% of their annual salary, in addition to the annual 5% contribution for the year ended December 31, 2015. The total cost of the aforementioned discretionary contribution was \$337,824, which is included in fringe benefit expenses on the Statement of Functional Expenses for the year ended December 31, 2015 as well as an accrued liability. The discretionary 2% contribution was deposited into the 401(a) thrift profit sharing plan during February 2016.

At their January 25, 2017 meeting, the Board of Directors approved a motion to give eligible employees a discretionary contribution of 2% of their annual salary, in addition to the annual 5% contribution for the year ended December 31, 2016. The total cost of the aforementioned discretionary contribution was \$359,219, which is included in fringe benefit expenses on the Statement of Functional Expenses for the year ended December 31, 2016, as well as an accrued liability. The discretionary 2% contribution was deposited into the 401(a) thrift profit sharing plan during February 2017.

NOTE Q - PENSION PLANS, CONTINUED

403(b) Tax-Deferred Annuity Plan

Family Health Centers offers an IRC Section 403(b) tax-deferred annuity plan to its eligible employees. The Plan permits only employee salary reduction contributions made pursuant to voluntary salary reduction agreements between the employer and its eligible employees. The contributions are excludable from gross income of the eligible employees under the Internal Revenue Code. The Plan does not provide for any other contributions by the employer or eligible employees. The Plan is administered by a third party, and all assets of the Plan are held by a third-party trustee.

457(b) Deferred Compensation Plan

On November 29, 2006, Family Health Centers' Board of Directors passed a resolution to establish an IRC Section 457(b) deferred compensation plan for highly compensated management employees. The deferred compensation plan was effective as of December 1, 2006, although no employer contributions were made during 2006. The Plan calls for non-elective employer contributions as approved by the Board of Directors.

Amounts deferred and earnings attributable to the deferrals are maintained as assets of Family Health Centers (assets held in trust) and are subject to the claims of the employer's general creditors. The Plan assets are offset by a liability in these financial statements - Assets Held in Trust.

All 457(b) Plan assets are held by a trustee, who is also the administrator of the Plan. The aforementioned assets are carried at fair value and are included on the Statements of Financial Position as Assets Held in Trust and also as Deferred Compensation.

Total employer contributions to the 457(b) plan for the years ended December 31, 2016 and 2015, by Family Health Centers were \$72,000 and \$72,000, respectively.

457(f) Deferred Compensation Plan

On January 23, 2013, Family Health Centers' Board of Directors passed a resolution to establish an IRC Section 457(f) deferred compensation plan for Family Health Centers' Chief Executive Officer (CEO). The Plan limits participation to the CEO. No other employees are eligible to participate in the Plan.

NOTE Q - PENSION PLANS, CONTINUED

457(f) Deferred Compensation Plan, continued

The Plan calls for both deferral contributions and non-elective employer contributions. Non-elective contributions are discretionary in an amount the employer, at its sole discretion, may determine.

Plan assets are recorded as assets by Family Health Centers and offset by a like amount liability - Assets Held in Trust.

The Plan involves substantial risk of forfeiture under IRC Section 409A and IRC Section 457(f). The participant is not entitled to any amounts of employer non-elective contributions or deferral contributions until:

- (1) the full and complete performance of the participant's services as CEO under the Professional Services Agreement, which expires on September 30, 2019;
- (2) the termination of the participant's employment on account of the death of the participant; or
- (3) the termination of the participant's employment on account of the disability of the participant

The Plan was established effective January 23, 2013 to allow for additional CEO retirement benefits due to funding limitations of the 401(a) and 457(b) Plans.

Total employer contributions to the 457(f) plan for the years ended December 31, 2016 and 2015, by Family Health Centers were \$48,411 and \$25,401, respectively.

NOTE R - LEASE COMMITMENTS

Family Health Centers leases several locations from which it operates its health centers. Certain of the leases contain options to renew and acceleration clauses based on the annual increase in the consumer price index. Facilities rental expense for the years ended December 31, 2016 and 2015, was \$846,200 and \$828,530, respectively.

Family Health Centers also leases (operating type) various office and medical equipment. Equipment rental expense for the years ended December 31, 2016 and 2015 was \$238,842 and \$212,659 respectively.

NOTE R - LEASE COMMITMENTS, CONTINUED

Total future minimum lease payments required under facility and equipment leases are as follows:

Years Ending December 31	Facility Leases	Equipment Leases	Totals
2017	\$ 751,369	\$ 2,272	\$ 753,641
2018	417,546	-	417,546
2019	53,171	-	53,171
2020	-	-	-
	<u>\$ 1,222,086</u>	<u>\$ 2,272</u>	<u>\$ 1,224,358</u>

NOTE S - ECONOMIC DEPENDENCE

The operations of Family Health Centers is dependent on the receipt of support and revenue from grantor agencies, Medicare and Medicaid. Loss of these funds and/or large decreases in these types of funding would have a material effect on Family Health Centers and a negative impact on overall operations. For the years ended December 31, 2016 and 2015, approximately 82% and 79% of total support and revenue, respectively, was attributable to amounts received from grantor agencies, Medicare and Medicaid.

NOTE T - LITIGATION

Family Health Centers is involved from time to time in routine litigation, the substance of which would not materially affect its financial position, due to third-party insurance coverage and/or federal tort limits. Family Health Centers is not in a position at either December 31, 2016 or 2015 to predict a final outcome of such lawsuits or claims, or the related costs involved. Family Health Centers intends to vigorously contest all claims unless first settled.

NOTE U- FAIR VALUE MEASUREMENTS

In accordance with ASC 820, Family Health Centers uses fair value measurements to record adjustments to certain assets. ASC 820 defines fair value as "the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date." The Codification also sets out a fair value hierarchy ranking the levels of the inputs used as assumptions in the valuation techniques used to value an asset or liability. The fair value hierarchy gives the highest priority to quoted prices in an active market for identical assets or liabilities (Level 1) and the lowest priority to unobservable inputs (Level 3). The three levels of hierarchy are described as follows:

Level 1 - inputs are quoted market prices in active markets for identical assets or liabilities that are accessible at the measurement date. An active market is a market in which transactions of the asset or liability occur with sufficient frequency and volume to provide pricing information on an ongoing basis.

Level 2 - inputs are from other than quoted market prices included in Level 1 that are observable for the asset or liability, either directly or indirectly. These inputs include quoted market prices of similar assets or liabilities in active markets, quoted market prices for identical or similar assets or liabilities in markets that are not active, and pricing models developed principally from inputs from, or corroborated by, observable market data by correlation or other means.

Level 3 - inputs are unobservable and allowed in situations where there is little, if any, market activity for the asset or liability at measurement date. These inputs reflect the reporting entity's own assumptions about assumptions that would be used by market participants.

The table below presents assets and liabilities measured at fair value on a recurring basis by level within the hierarchy at December 31, 2016 and 2015:

FAMILY HEALTH CENTERS OF SOUTHWEST FLORIDA, INC.
NOTES TO THE FINANCIAL STATEMENTS
December 31, 2016 and 2015

NOTE U - FAIR VALUE MEASUREMENTS, CONTINUED

<u>December 31, 2016</u>	<u>Total</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>
Assets:				
Money market funds	\$ 19,394,473	\$ -	\$ 19,394,473	\$ -
ICS money market funds	1,270,907	-	1,270,907	-
Assets held in trust - flexible premium annuity	517,634	-	-	517,634
Investment in LLC	-	-	-	-
Investment in ACO	<u>325,000</u>	<u>-</u>	<u>-</u>	<u>325,000</u>
	<u>\$ 21,508,014</u>	<u>\$ -</u>	<u>\$ 20,665,380</u>	<u>\$ 842,634</u>
Liabilities:				
Deferred Compensation (1)	<u>\$ 517,634</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 517,634</u>
<u>December 31, 2015</u>	<u>Total</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>
Assets:				
Money market funds	\$ 18,645,616	\$ -	\$ 18,645,616	\$ -
ICS money market funds	1,268,997	-	1,268,997	-
Assets held in trust - flexible premium annuity	401,437	-	-	401,437
Investment in LLC	-	-	-	-
Investment in ACO	<u>325,000</u>	<u>-</u>	<u>-</u>	<u>325,000</u>
	<u>\$ 20,641,050</u>	<u>\$ -</u>	<u>\$ 19,914,613</u>	<u>\$ 726,437</u>
Liabilities:				
Deferred Compensation (1)	<u>\$ 401,437</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 401,437</u>

(1) The fair value of these liabilities is based on the composite of the investment noted above.

Level 1: Family Health Centers had no such items at December 31, 2016 or 2015.

Level 2: Classifications consist of commingled funds where detailed holdings were available and the funds' fair value could be determined based on market prices, such as money markets, Insured Cash Sweep (ICS) money markets and certificates of deposit.

NOTE U - FAIR VALUE MEASUREMENTS, CONTINUED

Level 3: Classifications consist of the following:

Assets held in trust - are assets held in a 457(b) and 457(f) deferred compensation plan and are based on third-party investment administrators' valuation. Each employee's deferred compensation is held in an individual flexible annuity and valued by the investment company on a quarterly basis.

Investments in LLCs - are the cost value of units of ownership of Prestige Health Choice, LLC (LLC) and Health Choice Care, LLC (ACO) held by Family Health Centers at December 31, as no other method of determining its value is available.

Deferred compensation - is an offsetting liability to the assets held in trust with respect to the 457(b) and 457(f) deferred compensation plans.

The changes in Level 3 assets and liabilities consisted of the following at December 31:

	<u>2016</u>	<u>2015</u>
Assets:		
Changes in assets held in trust		
Beginning balance	\$ 401,437	\$ 448,233
Employer contributions	105,418	98,806
Withdrawals	(6,506)	(147,544)
Admin. charges/earnings	17,285	1,942
	<u>\$ 517,634</u>	<u>\$ 401,437</u>
Changes in investments in LLC's		
Beginning balance	\$ 325,000	\$ 1,073,875
Sale of Prestige	-	(748,875)
Purchase shares of Prestige	-	-
	<u>\$ 325,000</u>	<u>\$ 325,000</u>
Liabilities:		
Deferred compensation (1)		
Beginning balance	\$ 401,437	\$ 448,233
Employer contributions	105,418	98,806
Withdrawal	(6,506)	(147,544)
Admin. charges/earnings	17,285	1,942
	<u>\$ 517,634</u>	<u>\$ 401,437</u>

(1) The fair value of these liabilities is based on the composite of the investment noted above.

NOTE U - FAIR VALUE MEASUREMENTS, CONTINUED

Financial instruments not measured at fair value

Financial instruments not measured at fair value include cash and cash equivalents, receivables, accounts payable and accrued expenses. The carrying amounts of these items approximates fair value due to the short-term nature of the financial instruments.

NOTE V - RISK MANAGEMENT

Effective April 1, 2013, Family Health Centers began participation in a self-insurance program for employee medical, including prescription drugs.

As part of the self-insurance program, Family Health Centers has a stop loss policy to cover medical and prescription drug costs. This policy has a specific benefit and an aggregate benefit. The specific benefit is subject to a deductible of \$75,000 per member, which is funded by Family Health Centers. Once this deductible is met, the stop loss policy will reimburse Family Health Centers for additional eligible expenses incurred, with no limit. The aggregate coverage caps the total cost that Family Health Centers will incur for claims. Certain eligible expenses will be applied to the aggregate benefit. The aggregate benefit maximum is \$75,000 per person or \$1,000,000 in total.

Family Health Centers incurred health insurance claims and third-party administration costs totaling \$2,223,771 and \$1,437,847 during the years ending December 31, 2016 and 2015, respectively. As of December 31, 2016 and 2015, Family Health Centers has accrued \$294,266 and \$150,647, respectively, for estimated amounts to be paid for actual and incurred but not reported (IBNR) claims.

It is the policy of Family Health Centers to purchase commercial insurance for other remaining forms of potential risks to which it is exposed. No accrual has been recorded for claims and incidents not reported to the insurer. Reported claims have not exceeded the insurance coverage for the years ended December 31, 2016 or 2015.

NOTE W - SUBSEQUENT EVENTS/COMMITMENTS

In July 2015, Family Health Centers entered into a contract to purchase a parcel in downtown Fort Myers for \$595,000 and paid a \$20,000 deposit. The property is intended to be used for future clinical and non-clinical support. An additional \$10,000 deposit was made by Family Health Centers in order to extend the due diligence process. During the due diligence process, an environmental site assessment revealed that soil and groundwater on the property is contaminated in a manner requiring remediation. An amendment to the original contract requires the seller to take remediation measures, at the seller's expense, in order to obtain a No Further Action determination ("NFA") from the Florida Department of Environmental Protection. This amendment to the original contract extends the due diligence period to the first business day that is thirty (30) days after the seller's delivery of the NFA to Family Health Centers. No NFA was received by December 31, 2015; therefore, the purchase is pending. No NFA was received by December 31, 2016 and the purchase is still pending.

In December 2015, Family Health Centers purchased land in Lehigh Acres for \$1,350,000. The property is intended to be used for a future medical services facility. Family Health Centers has contracted with an architect and is in the process of selecting a general contractor. Construction of the facility is expected to begin in the Summer/Fall of 2017.

At the January 25, 2017 board meeting, a motion was made to accept the Finance Committee's recommendation to take advantage of and move forward with the New Markets Tax Credits financing structure presented by SunTrust Bank in the amount of \$15,000,000 for the Lehigh project. The Board unanimously approved the motion.

SUPPLEMENTARY INFORMATION

**FAMILY HEALTH CENTERS OF SOUTHWEST FLORIDA, INC.
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
AND STATE FINANCIAL ASSISTANCE
Year Ended December 31, 2016**

Federal or State Agency & Office/Pass Through Grantor/Program Title	CFDA# / CSFA#	Pass-Through or Grant Contract Number
FEDERAL AWARDS		
<u>U.S. Department of Health and Human Services</u>		
MAJOR (Type A) - FEDERAL AWARDS		
Health Resources and Services Administration (HRSA)		
Consolidated Health Centers Grant	93.224	* 6H80CS00185-15-07
Affordable Care Act (ACA) Grants for New & Expanded Services Under the Health Center Program	93.527	* 6H80CS00185-15-07
NON-MAJOR (Type B) - FEDERAL AWARDS		
Centers for Disease Control and Prevention (CDC)		
Subaward through American Cancer Society, Inc.		
Capacity Building Assistance to Strengthen Public Health Immunization Infrastructure and Performance	93.733	1H23IP000953-01
Capacity Building Assistance to Strengthen Public Health Immunization Infrastructure and Performance	93.733	6NH23IP000953-02-02

TOTAL FEDERAL FINANCIAL AWARDS

STATE FINANCIAL ASSISTANCE

State of Florida Agency for Health Care Administration (AHCA)

MAJOR (Type A) - STATE AWARDS

Community Primary Care Services	68.012	GFA016
---------------------------------	--------	--------

State of Florida Department of Health

NON-MAJOR (Type B) - STATE AWARDS

Community Public Health - Charlotte County Dental Services	64.057	COHD6
--	--------	-------

Community Public Health - Lee County Dental Services	64.059	COHD6
--	--------	-------

TOTAL STATE FINANCIAL ASSISTANCE

TOTAL FEDERAL AWARDS AND STATE FINANCIAL ASSISTANCE

* Designated as a cluster

(1) Includes receivables of \$13,218

(2) Includes receivables of \$2,203

<u>Program or Award Amount</u>	<u>Receipts / Revenue Recognized</u>	<u>Disbursements / Expenditures</u>	<u>Pass Through to Subrecipients</u>
\$ 3,365,187	\$ 3,365,187	\$ 3,365,187	\$ -
<u>6,798,256</u>	<u>6,346,034</u> (1)	<u>6,346,034</u>	<u>-</u>
<u>10,163,443</u>	<u>9,711,221</u>	<u>9,711,221</u>	<u>-</u>
40,000	17,784	17,784	-
<u>50,000</u>	<u>27,356</u> (2)	<u>27,356</u>	<u>-</u>
<u>90,000</u>	<u>45,140</u>	<u>45,140</u>	<u>-</u>
<u>10,253,443</u>	<u>9,756,361</u>	<u>9,756,361</u>	<u>-</u>
<u>\$ 1,417,042</u>	<u>\$ 1,417,042</u>	<u>\$ 1,417,042</u>	<u>\$ -</u>
907,668	225,471 (3)	225,471	-
<u>907,668</u>	<u>229,293</u> (4)	<u>229,293</u>	<u>-</u>
<u>1,815,336</u>	<u>454,764</u>	<u>454,764</u>	<u>-</u>
<u>3,232,378</u>	<u>1,871,806</u>	<u>1,871,806</u>	<u>-</u>
<u>\$ 13,485,821</u>	<u>\$ 11,628,167</u>	<u>\$ 11,628,167</u>	<u>\$ -</u>

(3) Includes receivables of \$53,840

(4) Includes receivables of \$56,424

FAMILY HEALTH CENTERS OF SOUTHWEST FLORIDA, INC.
NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
AND STATE FINANCIAL ASSISTANCE
Year Ended December 31, 2016

Page 38 of 47

NOTE A - BASIS OF PRESENTATION

The accompanying Schedule of Expenditures of Federal Awards and State Financial Assistance (the Schedule) includes the federal award activity of Family Health Centers of Southwest Florida, Inc. (Family Health Centers) under programs of the federal government for the year ended December 31, 2016. The information in this Schedule is presented in accordance with the requirements of Title 2 U.S. Code of Federal Regulations Part 200, "Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards" (Uniform Guidance), the Florida Single Audit Act (FS. 215.97) and State of Florida, Rules of the Auditor General 10.650. Because the Schedule presents only a selected portion of the operations of Family Health Centers, it is not intended to and does not present the financial position, changes in net assets, or cash flows of Family Health Centers.

NOTE B - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The Schedule of Expenditures of Federal Awards and State Financial Assistance has been prepared on the accrual basis of accounting in conformity with accounting principles generally accepted in the United States of America and is in accordance with the Uniform Guidance, the Florida Single Audit Act (FS. 215.97) and State of Florida, Rules of the Auditor General 10.650.

Expenditures reported on the Schedule of Expenditures of Federal Awards and State Financial Assistance include cash disbursements, whether capitalized or expensed, during the fiscal year, as well as grant related amounts recorded as payable at year end. Revenues reported on the Schedule of Expenditures of Federal Awards and State Financial Assistance include cash receipts, whether recognized or deferred, as well as grant receivables recorded at year end.

NOTE C - INDIRECT COSTS

Family Health Centers did not routinely allocate costs to Federal Award or State Financial Assistance programs. Costs charged to such programs were direct costs unless specifically incurred for the program and allowed and indicated as such.

Family Health Centers has elected not to use the 10% de minimis indirect cost rate allowed under the Uniform Guidance.

**ADDITIONAL REPORTS OF
INDEPENDENT AUDITOR**



TUSCAN
& Company, PA

Certified Public Accountants & Consultants

Affiliations

Florida Institute of Certified Public Accountants

American Institute of Certified Public Accountants

Private Companies Practice Section

Tax Division

Page 39 of 47

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
Family Health Centers of Southwest Florida, Inc.
2256 Heitman Street
Fort Myers, Florida 33901

We have audited, in accordance with the 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 of America, the financial statements of Family Health Centers of Southwest Florida, Inc., which comprise the statement of financial position as of December 31, 2016, and the related statements of activities, functional expenses and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated April 6, 2017.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered Family Health Centers of Southwest Florida, Inc.'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 on the effectiveness of Family Health Centers of Southwest Florida, Inc.'s internal control. Accordingly, we do not express an opinion on the effectiveness of Family Health Centers of Southwest Florida, Inc.'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.

INTEGRITY SERVICE EXPERIENCE

12621 World Plaza Lane, Building 55 • Fort Myers, FL 33907 • Phone: (239) 333-2090 • Fax: (239) 333-2097

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 Family Health Centers of Southwest Florida, Inc.'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 solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of 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.



TUSCAN & COMPANY, P.A.

Fort Myers, Florida

April 6, 2017

Independent Auditor's Report on Compliance With Requirements That Could Have a Direct and Material Effect on Each Major Program and/or Each Major State Project and on Internal Control Over Compliance in Accordance With the Uniform Guidance and the Florida Single Audit Act (Florida Statute 215.97)

Board of Directors
Family Health Centers of Southwest Florida, Inc.
2256 Heitman Street
Fort Myers, Florida 33901

Report on Compliance for Each Major Federal Program and Each Major State Project

We have audited Family Health Centers of Southwest Florida, Inc.'s compliance with the types of compliance requirements described in the OMB Compliance Supplement and Department of Financial Services "State Projects Compliance Supplement" that could have a direct and material effect on each of Family Health Centers of Southwest Florida, Inc.'s major federal programs and major state projects for the year ended December 31, 2016. Family Health Centers of Southwest Florida, Inc.'s major federal programs and major state project 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 federal programs and major state projects.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of Family Health Centers of Southwest Florida, Inc.'s major federal programs and major 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; and the audit requirements of Title 2 U.S. Code of Federal Regulations Part 200, "Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards" (Uniform Guidance); the Florida Single Audit Act (Florida Statute 215.97); and the State of Florida, Rules of the Auditor General 10.650. Those standards and the Uniform Guidance, the Florida Single Audit Act (Florida Statute 215.97) and the State of Florida, Rules of the Auditor General 10.650 require that we plan and perform the audit to obtain

INTEGRITY SERVICE EXPERIENCE

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 and/or major state project occurred. An audit includes examining, on a test basis, evidence about Family Health Centers of Southwest Florida, Inc.'s compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program and each major state project. However, our audit does not provide a legal determination of Family Health Centers of Southwest Florida, Inc.'s compliance.

Opinion on Each Major Federal Program and Major State Project

In our opinion, Family Health Centers of Southwest Florida, Inc. 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 its major state projects for the year ended December 31, 2016.

Report on Internal Control Over Compliance

Management of Family Health Centers of Southwest Florida, Inc. 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 Family Health Centers of Southwest Florida, Inc.'s internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program and each major state project to determine the auditing procedures that are appropriate in the circumstances, for the purpose of expressing an opinion on compliance for each major federal program and each major state project, and to test and report on internal control over compliance in accordance with the Uniform Guidance, the Florida Single Audit Act (Florida Statute 215.97), and the State of Florida, Rules of the Auditor General 10.650, 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 Family Health Centers of Southwest Florida, Inc.'s internal control over compliance.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program or state project on a timely basis. A material weakness in internal control over compliance is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program or state 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 federal program or 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 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 Uniform Guidance, the Florida Single Audit Act (Florida Statute 215.97), and the State of Florida, Rules of the Auditor General 10.650. Accordingly, this report is not suitable for any other purpose.

A handwritten signature in black ink that reads "Tuscán & Company, P.A." The signature is written in a cursive, flowing style.

TUSCAN & COMPANY, P.A.
Fort Myers, Florida
April 6, 2017

**FAMILY HEALTH CENTERS OF SOUTHWEST FLORIDA, INC.
 SCHEDULE OF FINDINGS AND QUESTIONED COSTS -
 FEDERAL AWARDS AND STATE FINANCIAL ASSISTANCE**

Section I – Summary of Auditor’s Results

Financial Statements

Type of auditor's report issued	Unmodified		
Internal control over financial reporting:			
Control deficiency(ies) identified?	_____ Yes	<u> X </u> No	
Significant deficiency(ies) identified?	_____ Yes	<u> X </u> No	
Material weakness(es) identified?	_____ Yes	<u> X </u> None reported	
Noncompliance material to financial statements noted?	_____ Yes	<u> X </u> No	

Federal Awards

Internal control over major programs:			
Control deficiency(ies) identified?	_____ Yes	<u> X </u> No	
Significant deficiency(ies) identified?	_____ Yes	<u> X </u> No	
Material weakness(es) identified?	_____ Yes	<u> X </u> None reported	
Type of auditors report issued on compliance for major programs	Unmodified		
Any audit findings disclosed that are required to be reported in accordance with 2 CFR Section 200.516(a)	_____ Yes	<u> X </u> No	
Identification of major programs:			

CFDA	
<u>Number(s)</u>	<u>Name of Federal Program or Cluster</u>
93.224	Consolidated Health Centers Grant
93.527	Affordable Care Act (ACA) Grants for New & Expanded Services Under the Health Center Program

Dollar threshold used to distinguish between Type A and Type B programs?	Threshold used was \$750,000
Auditee qualified as low-risk auditee?	<u> X </u> Yes <u> </u> No
Listing of Subrecipients and amounts passed-through:	None - There were no subgrantees

Section II- Financial Statement Findings

There were no reportable conditions, material weaknesses, or instances of noncompliance related to the financial statements noted.

FAMILY HEALTH CENTERS OF SOUTHWEST FLORIDA, INC.
SCHEDULE OF FINDINGS AND QUESTIONED COSTS -
FEDERAL AWARDS AND STATE FINANCIAL ASSISTANCE, CONTINUED

Section III- Federal Award Findings and Questioned Costs

There were no audit findings related to federal awards required to be reported by 2CFR Section 200.516(a) noted.

Status of Federal and/or State Prior Year Findings

There were no prior year findings.

State Financial Assistance

Internal control over major projects:

Control deficiency(ies) identified?	_____	Yes	<u>X</u>	No
Significant deficiency(ies) identified?	_____	Yes	<u>X</u>	No
Material weakness(es) identified?	_____	Yes	<u>X</u>	None Reported
Type of auditors report issued on compliance for major projects	Unmodified			
Any audit findings disclosed that are required to be reported in accordance with Rules of the Auditor General 10.654(1)(h)(4)?	_____	Yes	<u>X</u>	No

Identification of major projects:

CSFA		
<u>Number(s)</u>	<u>Name of State Project</u>	
68.012	GA016	State of Florida, Agency for Health Care Community Primary Care Services

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

Listing of Subrecipients and amounts passed-through:

There were no subgrantees

Section II- Financial Statement Findings

There were no reportable conditions, material weaknesses, or instances of noncompliance related to the financial statements noted.

Section III- State Financial Assistance Findings and Questioned Costs

There were no audit findings related to State Financial Assistance noted.

Status of State Financial Assistance Prior Year Findings

There were no prior year findings.



TUSCAN
& Company, PA

Certified Public Accountants & Consultants

Affiliations

Florida Institute of Certified Public Accountants

American Institute of Certified Public Accountants

Private Companies Practice Section

Tax Division

Page 46 of 47

INDEPENDENT AUDITOR'S REPORT TO MANAGEMENT

Board of Directors
Family Health Centers of Southwest Florida, Inc.
2256 Heitman Street
Fort Myers, Florida 33901

In planning and performing our audit of the financial statements of Family Health Centers of Southwest Florida, Inc. ("Family Health Centers") as of and for the year ended December 31, 2016, we considered Family Health Centers of Southwest Florida, Inc.'s internal control over financial reporting (internal control) as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements but not for the purpose of expressing an opinion of the effectiveness of the Family Health Centers' internal control. Accordingly, we do not express an opinion on the effectiveness of the Family Health Centers' 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.

Our consideration of internal control was for the limited purpose described in the first paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses. 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.

In connection with our audit, we are submitting the following comments and recommendations in accordance with Government Auditing Standards, Title 2 U.S. Code of Federal Regulations Part 200, "Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards" (Uniform Guidance) and Chapter 10.650 "Rules of the Auditor General - State Single

INTEGRITY SERVICE EXPERIENCE

12621 World Plaza Lane, Building 55 • Fort Myers, FL 33907 • Phone: (239) 333-2090 • Fax: (239) 333-2097

Audit, Nonprofit and For-Profit Organizations" (Revised September 30, 2016) Rule 10.656(3)(e) and Section 215.97(9)(f), of the Florida Statutes. We are, therefore, submitting for your review and consideration, items noted during the audit and recommendations designed to help Family Health Centers make improvements and achieve operational efficiencies. Our comments reflect our desire to be of continuing assistance to Family Health Centers of Southwest Florida, Inc.

PRIOR YEAR COMMENTS THAT CONTINUE TO APPLY:

None - No financially significant comments noted.

CURRENT YEAR COMMENTS:

None - No financially significant comments noted.

This report is intended solely for the information and use of finance committee, management, federal and state awarding agencies, pass-through entities, the Auditor General for the State of Florida, and other federal and state audit agencies. This report is not intended to be, and should not be, used by anyone other than these specified parties.

A handwritten signature in black ink that reads "Tuscany & Company, P.A." in a cursive script.

TUSCAN & COMPANY, P.A.
Fort Myers, Florida
April 6, 2017

EXHIBIT



Family Health Centers
OF SOUTHWEST FLORIDA, INC.

April 26, 2017

Tuscan & Company, P.A.
12621 World Plaza Lane
Building 55
Fort Myers, FL 33907

The Budget and Finance Committee of Family Health Centers of Southwest Florida, Inc. has reviewed the audited financial statements for the years ended December 31, 2016 and 2015 prepared by your firm.

The Committee has approved the audit on behalf of the Board of Directors and we thank you for your efforts.

Sincerely,

Steven M. Davis
Board Chairman