

CIRCLES OF CARE, INC.

**FINANCIAL STATEMENTS AND
SUPPLEMENTARY INFORMATION**

As of and for the year ended June 30, 2017

and

INDEPENDENT AUDITOR'S REPORT

CIRCLES OF CARE, INC.
MELBOURNE, FLORIDA

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

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

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

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

Report on the Financial Statements

We have audited the accompanying financial statements of Circles of Care, Inc. (CoC), (a nonprofit organization), which comprise the balance sheet as of June 30, 2017, and the related statements of operations and changes in net assets and cash flows for the year then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the

appropriateness of accounting principles used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of financial statements.

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of CoC as of June 30, 2017, and the results of its operations and changes in net assets and cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Other Matters

Supplementary Information

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The accompanying schedule of expenditures of federal awards and state financial assistance, as required by Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* and the Rules of the Florida Department of Financial Services, is presented for the purpose of additional analysis is not required part of the financial statements. The accompanying schedules of revenues, program/cost center actual expenses and revenues, state earnings for alcohol, drug abuse, and mental health services - match calculation, bed-day availability payments, and related party transactions adjustments are required by the Florida Department of Children and Families. These schedules are presented for purposes of supplementary analysis, and are not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements, and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report, dated December 14, 2017, on our consideration of CoC's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering CoC's internal control over financial reporting and compliance.



Davies, Houser & Secret, CPA, P.A.
Cocoa, Florida
December 14, 2017

FINANCIAL STATEMENTS

CIRCLES OF CARE, INC.

BALANCE SHEET
June 30, 2017

ASSETS

Current assets:

Cash and cash equivalents	\$ 8,371,495
Investments	11,785,507
Patient accounts receivable, net of allowances for contractual adjustments and uncollectible accounts of \$3,029,608	1,550,350
Inventories, other receivables, and prepaid items	<u>5,104,911</u>

Total current assets 26,812,263

Assets limited as to use:

Internally designated for renewal and replacement	8,000,000
Beneficial interest in perpetual trust	<u>599,243</u>

Total assets limited as to use 8,599,243

Property and equipment, at cost or fair market
value, if donated, net of accumulated depreciation:

Land	1,077,500
Buildings and improvements	7,849,145
Furniture and equipment	769,750
Land and buildings not used in operations	<u>2,101,324</u>

Property and equipment, at depreciated cost 11,797,719

Total assets \$ 47,209,225

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

LIABILITIES AND NET ASSETS

Current liabilities:	
Accounts payable	\$ 433,831
Accrued payroll, payroll taxes, and vested leave	1,541,996
Accrued liabilities - other	2,372,293
Current portion of bonds payable	<u>288,935</u>
Total current liabilities	<u>4,637,055</u>
Long-term debt:	
Bonds payable	<u>4,122,791</u>
Total liabilities	<u>8,759,846</u>
Contingencies and commitments (Note 7)	
Net assets:	
Unrestricted	37,850,136
Permanently restricted	<u>599,243</u>
Total net assets	<u>38,449,379</u>
 Total liabilities and net assets	 <u>\$ 47,209,225</u>

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

CIRCLES OF CARE, INC.

STATEMENT OF OPERATIONS AND CHANGES IN NET ASSETS

For the year ended June 30, 2017

Changes in unrestricted net assets:	
Revenues and support:	
Net patient service revenue (Notes 11 and 12)	\$ 17,879,704
Government contracts and other support:	
State Mental Health Contract	12,505,923
Medicaid	606,220
Other government funding	1,804,507
Other support	617,011
Contributions	40,468
Pharmacy	<u>5,992,283</u>
	39,446,116
Rental income	619,327
Investment income	<u>520,135</u>
Total unrestricted revenues and support	<u>40,585,578</u>
Expenses:	
Salaries and employee benefits	25,267,974
Other operating expenses	<u>14,211,485</u>
Total expenses	<u>39,479,459</u>
Excess of revenues, gains, and other support over expenses	1,106,119
Change in net unrealized gains and (losses) on other than trading securities	1,161,790
Gain on derivative investments	<u>32,000</u>
Increase in unrestricted net assets	<u>2,299,909</u>
Change in permanently restricted net assets:	
Increase in permanently restricted net assets	<u>35,176</u>
Change in permanently restricted net assets	35,176
Change in net assets	2,335,085
Net assets at beginning of year	<u>36,114,294</u>
Net assets at end of year	<u>\$ 38,449,379</u>

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

CIRCLES OF CARE, INC.

STATEMENT OF CASH FLOWS
For the year ended June 30, 2017

Cash flows from operating activities:	
Cash received from patients	\$ 16,560,934
Cash received from state contracts and other support	15,688,053
Cash received from pharmacy	4,954,602
Cash received from rents	619,327
Interest and dividends received	374,062
Cash paid to suppliers and employees	(37,234,266)
Interest paid	<u>(182,312)</u>
Net cash provided by operating activities	<u>780,400</u>
Cash flows from investing activities:	
Payments for acquisition of assets	(2,622,673)
Proceeds from sale and maturities of assets	6,720,384
Purchase of investments	<u>(7,056,155)</u>
Net cash used in investing activities	<u>(2,958,444)</u>
Cash flows from financing activities:	
Principal payments of long-term debt	<u>(276,659)</u>
Net cash used in financing activities	<u>(276,659)</u>
Net decrease in cash and cash equivalents	(2,454,703)
Cash and cash equivalents at beginning of year	<u>10,826,198</u>
Cash and cash equivalents at end of year	<u><u>\$ 8,371,495</u></u>

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

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

Change in net assets	\$ <u>2,335,085</u>
Adjustments to reconcile change in net assets to net cash provided by operating activities:	
Depreciation and amortization	796,046
Net realized and unrealized gains on sale of investments on other than trading securities	(1,307,863)
Gain on derivative investments	(32,000)
Change in assets and liabilities:	
Increase in patient accounts receivable	(149,770)
Increase in inventories, other receivables, and prepaid items	(82,338)
Increase in accounts payable	94,428
Decrease in accrued payroll, payroll taxes, and vested leave	(913,769)
Increase in accrued liabilities - other	<u>40,581</u>
Total adjustments	<u>(1,554,685)</u>
Net cash provided by operating activities	\$ <u><u>780,400</u></u>

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

CIRCLES OF CARE, INC.

NOTES TO FINANCIAL STATEMENTS
As of and for the year ended June 30, 2017

NOTE 1 - REPORTING ENTITY

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

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Basis of Accounting

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

B. Display of Net Assets by Class

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

C. Contributions

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

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

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

Donations of property and equipment are recorded as support at their estimated fair value. Such donations are reported as unrestricted support, unless the donor has restricted the donated asset to a specific purpose. Assets donated with explicit restrictions regarding their use and contributions of cash that must be used to acquire property and equipment are reported as restricted support. Absent donor stipulations regarding how long those donated assets must be maintained, CoC

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

reports expirations of donor restrictions when the donated or acquired assets are placed in service as instructed by the donor. CoC reclassifies temporarily restricted net assets to unrestricted net assets at that time.

D. Net Patient Service Revenue

Net patient service revenue is reported at estimated net realizable amounts from patients, third-party payers, and others, excluding Medicaid, for services rendered, including estimated retroactive adjustments under reimbursement agreements with third-party payers. Retroactive adjustments are accrued on an estimated basis in the period the related services are rendered and adjusted in future periods, as final settlements are determined. A retroactive Medicare adjustment is included in net patient service revenue for the year ended June 30, 2017 (see Note 7).

E. Allowance for Doubtful Accounts

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

F. Charity Care

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

G. Property and Equipment

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

Depreciation is computed on the straight-line basis for all depreciable assets. Depreciation expense for the year ended June 30, 2017, was \$796,046. Expected useful lives for various asset classes are as follows:

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

H. Income Taxes

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

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

I. Cash Flows

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

J. Inventories

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

K. Investments and Investment Income

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

L. Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, and disclosures of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. Accordingly, actual results could differ from those estimates.

NOTE 3 - PROPERTY AND EQUIPMENT

	<u>Cost</u>	<u>Accumulated Depreciation</u>	<u>Net</u>
Land	\$ 1,077,500	\$ 0	\$ 1,077,500
Buildings and improvements	18,100,623	10,251,478	7,849,145
Furniture and equipment	3,268,916	2,499,166	769,750
Land and buildings not used in operations	<u>2,101,324</u>	<u>0</u>	<u>2,101,324</u>
	<u>\$24,548,363</u>	<u>\$12,750,644</u>	<u>\$11,797,719</u>

The federal government and the State of Florida have imposed certain use restrictions on a portion of property and equipment. The net value of the restrictions is \$119,160 for the year ended June 30, 2017.

NOTE 3 - PROPERTY AND EQUIPMENT (continued)

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

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

For the years ending June 30:	
2018	\$ 68,774
2019	68,774
2020	68,774
2021	68,774
2022	<u>68,774</u>
Total	<u>\$ 343,870</u>

Lease expense recorded under the land lease agreement was \$68,744, for the year ended June 30, 2017.

NOTE 4 - INVESTMENTS

A. Assets Internally Designated for Renewal and Replacement

The composition of assets whose use is internally designated for future asset renewal and replacement at June 30, 2017, is set forth in the following table. Marketable debt and equity securities are stated at fair market value. Assets internally designated for renewal and replacement include \$120,000 for future potential losses due to uninsured windstorm damage.

Cash and cash equivalents	\$ 403,906
Marketable debt securities	1,379,602
Marketable equity securities	<u>6,216,492</u>
	<u>\$ 8,000,000</u>

B. Investments

Certificates of deposit	\$ 1,747,835
Marketable debt securities	2,418,537
Marketable equity securities	<u>7,619,135</u>
	<u>\$ 11,785,507</u>

NOTE 4 – INVESTMENTS (continued)

Investment income and gains from assets limited as to use, cash equivalents, and investments, net of investment custodial and advisory fees of \$45,584, for fiscal year ended June 30, 2017, are comprised of the following:

Income:	
Interest and dividend income	\$ 374,062
Realized gains on sale of securities	<u>146,073</u>
	<u>\$ 520,135</u>
Other changes in unrestricted net assets:	
Change in net unrealized gains and (losses) on other than trading securities	<u>\$ 1,161,790</u>

NOTE 5 - FAIR VALUE MEASUREMENTS

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

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

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

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

Fair values of assets measured on a recurring basis at June 30, 2017, are as follows:

	Fair Value Measurements at Reporting Date Using			
	Fair Value	Quoted Price in Active Markets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Certificates of deposit	\$ 1,747,835	\$ 1,747,835	\$ 0	\$ 0
Marketable debt securities	3,798,139	3,798,139	0	0
Marketable equity securities	13,835,627	13,835,627	0	0
Beneficial interest in perpetual trust	<u>599,243</u>	<u>599,243</u>	<u>0</u>	<u>0</u>
Total investments	<u>\$ 19,980,844</u>	<u>\$ 19,980,844</u>	<u>\$ 0</u>	<u>\$ 0</u>

NOTE 6 - INTEREST EXPENSE

The total interest expense of \$182,312, paid in 2017, represents interest incurred on the bonds issued by the County and other debt associated with capital acquisitions and improvements placed in service in prior years. This interest was paid from earnings on limited use investments and unrestricted revenue.

NOTE 7 - CONTINGENCIES AND COMMITMENTS

A. Medicare Reimbursement

Revenue received under the Medicare reimbursement agreement is subject to audit and retroactive adjustment by the Medicare intermediary agency. Management records additional receivables and payables relating to Medicare based on the Medicare Cost Reimbursement reports. The retroactive Medicare adjustments are reported in net patient service revenue in the year in which the funds are paid out or received. All Medicare reports, for the years ended June 30, 2016, and prior, have been audited or subjected to a desk review and final settlements have been determined.

B. Pending Litigation

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

C. Concentration of Credit Risk

CoC places its temporary cash investments with financial institutions. The amount of credit exposure in excess of federally insured limits was \$8,471,572, at June 30, 2017.

D. Self-insurance

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

As a result of these decisions, management, in consultation with the Board of Directors, has decided to designate \$120,000 as a reserve for potential uninsured future losses as of June 30, 2017. It is management's intent to continue to add to this reserve until such time it feels the potential loss is reasonably covered.

E. Beneficial Interest in Perpetual Trust

CoC became an income beneficiary of the Mildred Ziegenhein Trust. CoC is one of three charitable beneficiaries who are named to receive the income earned from a combination of income and growth investments. The market value of CoC's share of the trust at June 30, 2017, was \$599,243, and has been recorded as permanently restricted net assets due to its perpetual nature. As of June 30, 2017, \$71,543 of these funds was invested in marketable debt securities; \$426,756 was invested in marketable equity securities; \$63,623 was invested in hedge funds; \$5,298 was invested in other investments; and \$32,023 was invested in cash and cash equivalents.

NOTE 8 - BONDS PAYABLE

Concurrent with the negotiation of the land lease (see Note 3), CoC entered into a commitment for financing with Bank of America (the Bank), for the purpose of financing the acquisition, construction, and equipping of a new 30-bed healthcare facility to be utilized as an involuntary mental health treatment facility authorized pursuant to Chapter 394, Part I, Florida Statutes (commonly known as “Baker Act Crisis Stabilization Unit”); renovation of the existing healthcare facilities at 400 E. Sheridan Road, Melbourne, Florida; and payment of issuance costs of the financing agreement. Collectively, these undertakings are referred to as the Project.

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

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

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

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

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

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

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

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

NOTE 8 - BONDS PAYABLE (continued)

On June 19, 2013, CoC executed a loan agreement with the Bank to refinance the existing debt with a variable rate loan payable at the 30-day LIBOR, plus 170 basis points. CoC simultaneously swapped the variable rate for a fixed rate mortgage with a 3.92% interest rate. The mortgage holders have established certain covenants to which CoC must comply. As of June 30, 2017, CoC was in compliance with these covenants.

During the year ended June 30, 2017, a gain of \$32,000 was recognized on these designated and qualifying fair value hedging instruments. Since there is no ineffective portion of hedging instruments, no gain or loss has been excluded from the assessment of hedge effectiveness.

As of June 30, 2013, CoC had borrowed \$4,991,361, through the Series 2009A Bonds and \$1 million through the Series 2009B Bonds under the revised financing agreement. Since the swap agreements went into effect as of July 1, 2010, repayment of the advances under the original commitment for financing and revised financing agreement commenced during the year ended June 30, 2011. Repayments on the Series 2009A Bonds were \$196,028, for the year ended June 30, 2017. Repayments on the Series 2009B Bonds were \$68,873, for the year ended June 30, 2017.

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

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

Bonds payable	\$4,411,726
Less amount due within one year	<u>288,935</u>
Long-term portion	<u>\$4,122,791</u>

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

	Series 2009A	Series 2009B	Total
Fiscal years ending June 30:			
2018	\$ 213,812	\$ 75,123	\$ 288,935
2019	221,487	79,161	300,648
2020	231,315	82,673	313,988
2021	241,580	86,342	327,922
2022	252,301	90,173	342,474
2023 and thereafter	<u>2,452,422</u>	<u>96,402</u>	<u>2,548,824</u>
Total	<u>\$ 3,612,917</u>	<u>\$ 509,874</u>	<u>\$ 4,122,791</u>

NOTE 9 - MALPRACTICE INSURANCE PLAN

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

NOTE 9 - MALPRACTICE INSURANCE PLAN (continued)

identified by the system. This accrual is based on past experience, as well as other considerations, including the nature of each claim or incident and relevant trend factors. The reserves for such losses are \$120,000, as of June 30, 2017.

NOTE 10 - RESTRICTED NET ASSETS

Included in permanently restricted net assets is the beneficial interest in the Ziegenhein Trust (see Note 7).

NOTE 11 - NET PATIENT SERVICE REVENUE

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

Net patient service revenue consists of the following:

Gross patient service revenue	\$ 43,855,042
Less provisions for contractual and policy adjustments and Medicaid	<u>25,975,338</u>
Net patient service revenue	<u>\$ 17,879,704</u>

NOTE 12 - CHARITY CARE

The amount of charges forgone for services and supplies, furnished under the charity care policy of CoC, was \$14,617,343 for the fiscal year ended June 30, 2017.

NOTE 13 - PENSION

CoC sponsors a defined contribution pension plan that covers substantially all employees. The pension plan is funded by CoC contributions and voluntary employee contributions. There are no unfunded past service costs associated with the pension plan. Pension expenses were \$1,766,822, for the fiscal year ended June 30, 2017.

NOTE 14 - SUPPORT FROM THE STATE OF FLORIDA WHICH REQUIRED MATCH

CoC received a substantial portion of its support from Central Florida Cares Health System, Inc. (CFCHS) under a grant contract with DCF's Alcohol, Drug Abuse, and Mental Health Program. This contract is renegotiated annually and a maximum amount is established during the negotiation process so that income is earned on a unit of service basis. That is, income can be recognized only to the extent to which eligible services are performed. The contract required a 25% local match for certain community mental health services. The matching requirement has been fulfilled for the year ended June 30, 2017.

NOTE 14 - SUPPORT FROM THE STATE OF FLORIDA WHICH REQUIRED MATCH
(continued)

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

NOTE 15 - DONATED SERVICES AND GOODS

CoC received in-kind pharmaceuticals from drug manufacturers to assist with the treatment of patients at CoC. The goods were valued at \$932,000, for the fiscal year ended June 30, 2017. Donated pharmaceuticals valued at \$831,085, have been included in inventory, as of June 30, 2017.

NOTE 16 - PROGRAM, ADMINISTRATION, AND FUNDRAISING EXPENSES

CoC expended the following amounts on program, administration, and fundraising expenses for the fiscal year ended June 30, 2017:

Program	\$ 37,338,169
Administration	2,141,290
Fundraising	<u>0</u>
Total	<u>\$ 39,479,459</u>

NOTE 17 - SUBSEQUENT EVENTS

CoC has evaluated subsequent events through December 14, 2017, the date which the financial statements were available to be issued.

SUPPLEMENTARY INFORMATION

CIRCLES OF CARE, INC.

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
AND STATE FINANCIAL ASSISTANCE
For the year ended June 30, 2017

Employer Identification Number: 59-1101553

<u>Grantor/Pass-through Grantor/Program Title</u>	<u>CFDA/ CSFA Number</u>	<u>Pass-through Entity and/ or Contract Number</u>	<u>Program or Award Amount</u>	<u>Amounts Expended</u>
Federal awards passed through from the Central Florida Cares Health System, Inc.:				
U.S. Department of Health and Human Services:				
Block Grants for Prevention and Treatment of Substance Abuse	93.959	COC19	\$1,719,015	\$ 1,719,015
Block Grants for Community Mental Health Services	93.958	COC19	\$433,290	433,290
Support Our Students Program	93.558	COC19	\$120,224	120,224
Projects for Assistance in Transition from Homelessness	93.150	COC19	\$81,592	81,592
Federal awards passed through from Florida Department of Children and Families:				
Block Grants for Community Mental Health Services	93.958	GH504	\$750,000	<u>750,000</u>
Total expenditures of federal awards				<u>3,104,121</u>
State of Florida assistance:				
Passed through from the Florida Department of Health:				
Tobacco Prevention Community Program	64.093	COTGF	\$228,760	228,760
Passed through from the Central Florida Cares Health System, Inc.:				
Community Forensic Beds and Competency Restoration Training	60.114	COC19	\$46,583	46,583
Substance Abuse and Mental Health Services	60.153	COC19	\$1,375,000	1,375,000
SAMH - Community Services	60.155	COC19	\$970,000	<u>970,000</u>
Total expenditures of state financial assistance				<u>2,620,343</u>
Total expenditures of federal awards and state financial assistance				<u>\$ 5,724,464</u>

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

CIRCLES OF CARE, INC.
 SCHEDULE OF REVENUES
 For the year ended June 30, 2017

State SAMH grants:	
Adult community mental health	\$ 8,249,844
Adult substance abuse	2,749,052
Children's mental health	407,340
Children's substance abuse	349,687
CAT program	<u>750,000</u>
Total state SAMH grants	<u>12,505,923</u> (1)
Other government funding:	
Local government	1,804,507
Medicaid	606,220
Other state grants	<u>228,760</u>
Total other government funding	<u>2,639,487</u>
All other funding and revenues:	
Medicare	4,162,017
First- and third-party fees	13,717,687 (2)
Contributions and donations	40,468
In-kind expenditures	932,000
Investment revenue	1,681,925
Rental revenue	619,327
Pharmacy revenue	5,060,283
Other	<u>424,251</u>
Total nongovernment funding	<u>26,637,958</u>
Total all funding and revenues	<u>\$ 41,783,368</u>

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

(2) Includes a grossed-up amount of \$1,169,000, which is offset in the statement of operations and changes in net assets by \$1,169,000 of bad debt expense.

CIRCLES OF CARE, INC.

PROGRAM/COST CENTER ACTUAL EXPENSES AND REVENUES
For the year ended June 30, 2017

FUNDING SOURCES & REVENUES	Adult Mental Health													Total AMH
	Incidental Expenses	Medical Outpatient	Case Management	Crisis Stabilization	Room & Board Sup. II	Room & Board Sup. III	Drop-in Center	Inpatient	Crisis Support	Outreach	Outpatient Individual	Assessment	Residential IV	
Total state SAMH funding:														
District Seven funding (1)	\$ 98,206	\$ 707,078	\$ 274,392	\$ 3,252,628	\$ 1,507,590	\$ 644,274	\$ 24,000	\$ 1,189,800	\$ 490,100	\$ 22,689	\$ 158	\$ 12,151	\$ 26,779	\$ 8,249,845
Other government funding:														
Other state funding	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Medicaid	0	52,319	0	0	0	0	0	0	0	0	0	0	0	52,319
Local government	0	257,783	0	1,000,565	0	0	0	100,000	163,333	0	0	0	0	1,521,681
Federal government	0	0	0	0	0	0	0	0	0	0	0	0	0	0
In-kind (local government)	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Total other government funding	0	310,102	0	1,000,565	0	0	0	100,000	163,333	0	0	0	0	1,574,000
All other funding and revenues:														
Net first-party fees (2)	0	235,983	0	31,109	0	0	0	0	0	0	0	0	0	267,092
Net third-party fees (except Medicare) (2)	0	859,492	0	2,499,199	0	0	0	0	0	0	0	0	0	3,358,691
Medicare (2)	0	217,365	0	0	0	0	0	0	0	0	0	0	0	217,365
Donations and contributions	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Other revenue	0	0	0	51,494	412,103	474,424	0	0	0	0	0	0	0	938,021
In-kind	0	820,160	0	0	0	0	0	0	0	0	0	0	0	820,160
Total nongovernment funding	0	2,133,000	0	2,581,802	412,103	474,424	0	0	0	0	0	0	0	5,601,329
Total all funding and revenues	\$ 98,206	\$ 3,150,180	\$ 274,392	\$ 6,834,995	\$ 1,919,693	\$ 1,118,698	\$ 24,000	\$ 1,289,800	\$ 653,433	\$ 22,689	\$ 158	\$ 12,151	\$ 26,779	\$ 15,425,174
EXPENSE CATEGORIES														
Personnel expenses:														
Salaries and contractual services	\$ 44,633	\$ 1,690,758	\$ 95,679	\$ 3,359,304	\$ 873,344	\$ 184,702	\$ 17,511	\$ 385,110	\$ 448,993	\$ 19,586	\$ 3,895	\$ 7,449	\$ 37,803	\$ 7,168,767
Fringe benefits	18,087	314,608	38,784	978,087	340,044	119,691	6,942	138,133	115,552	7,940	1,623	3,105	13,783	2,096,379
Total personnel expenses	62,720	2,005,366	134,463	4,337,391	1,213,388	304,393	24,453	523,243	564,545	27,526	5,518	10,554	51,586	9,265,146
Operating expenses:														
Building occupancy	21,968	90,336	46,930	474,693	331,414	117,239	1,310	63,500	5,873	9,607	425	813	7,616	1,171,724
Professional services	3,326	36,898	7,142	187,235	5,284	2,161	94	59,973	1,990	1,462	32	61	245	305,903
Travel	3,814	29,426	8,190	41,138	9,511	206	13	3,852	7,391	1,677	24	45	0	105,287
Food services	0	59	3,170	307,325	109,882	97,936	200	50,627	751	649	28	54	102	570,783
Medical and pharmacy	0	1,022,534	0	216,860	87,346	117,692	0	67,632	0	0	0	0	17	1,512,081
Subcontract services	0	0	0	0	0	0	4,000	0	0	0	0	0	0	4,000
Insurance	2,986	122,302	6,413	119,354	32,686	20,085	648	25,317	13,560	1,313	231	441	2,722	348,058
Interest	0	11,503	0	127,900	58	77	0	5,232	0	0	27	52	0	144,849
Operating supplies	3,861	110,067	8,290	195,216	82,835	21,898	877	29,896	13,865	1,697	334	638	3,536	473,010
Equipment costs	0	4,607	7,761	6,697	25,982	12,044	6	1,708	1,044	1,589	0	0	936	62,374
Donated items	0	0	0	0	0	0	0	0	0	0	0	0	0	0
HMO expense	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Other (1)	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Total operating expenses	35,955	1,427,732	87,896	1,676,418	684,998	389,338	7,148	307,737	44,474	17,994	1,101	2,104	15,174	4,698,069
Total personnel and operating expenses	98,675	3,433,098	222,359	6,013,809	1,898,386	693,731	31,601	830,980	609,019	45,520	6,619	12,658	66,760	13,963,215
Distributed indirect cost:														
Administration	5,950	261,675	13,422	363,009	114,592	41,885	1,908	73,709	36,762	2,748	400	764	4,030	920,854
Total allowable operating expenses	104,625	3,694,773	235,781	6,376,818	2,012,978	735,616	33,509	904,689	645,781	48,268	7,019	13,422	70,790	14,884,069
Unallowable costs	1,943	987,414	4,384	118,550	37,423	13,842	623	519,404	12,006	897	131	250	1,316	1,698,183
Total actual operating expenses	\$ 106,568	\$ 4,682,187	\$ 240,165	\$ 6,495,368	\$ 2,050,401	\$ 749,458	\$ 34,132	\$ 1,424,093	\$ 657,787	\$ 49,165	\$ 7,150	\$ 13,672	\$ 72,106	\$ 16,582,252
Capital expenditures	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0

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

(2) Net of bad debts of \$1,169,000.

CIRCLES OF CARE, INC.

PROGRAM/COST CENTER ACTUAL EXPENSES AND REVENUES
For the year ended June 30, 2017
(continued)

FUNDING SOURCES & REVENUES	Children's Mental Health						Adult Substance Abuse								
	Crisis Stabilization	Crisis Support	Total CMH	Residential Level IV	Residential Level I	Detox	Crisis Support	Incidental Expenses	Prevention	Assessment	Outpatient Individual	Outpatient Group	Intervention Individual	Intervention Group	Total ASA
Total state SAMH funding:															
District Seven funding (1)	\$ 377,440	\$ 29,900	\$ 407,340	\$ 51,332	\$ 736,495	\$ 1,379,465	\$ 243,550	\$ 25,333	264,180	\$ 2,204	\$ 14,853	\$ 4,503	\$ 25,860	\$ 1,276	\$ 2,749,051
Other government funding:															
Other state funding	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Medicaid	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Local government	210,159	16,667	226,826	0	0	0	0	0	0	0	0	0	0	0	0
Federal government	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
In-kind (local government)	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Total other government funding	210,159	16,667	226,826	0	0	0	0	0	0	0	0	0	0	0	0
All other funding and revenues:															
Net first-party fees (2)	39,170	0	39,170	0	3,920	3,225	0	0	0	0	0	0	0	0	7,145
Net third-party fees															0
(except Medicare) (2)	1,907,173	0	1,907,173	0	52,630	746,533	0	0	0	0	0	0	0	0	799,163
Medicare (2)	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Donations and contributions	0	0	0	40,372	0	0	0	0	0	0	0	0	0	0	40,372
Other revenue	17,681	0	17,681	1,643	5,638	9,436	0	0	0	0	0	0	0	0	16,717
In-kind	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Total nongovernment funding	1,964,024	0	1,964,024	42,015	62,188	759,194	0	0	0	0	0	0	0	0	863,397
Total all funding and revenues	\$ 2,551,623	\$ 46,567	\$ 2,598,190	\$ 93,347	\$ 798,683	\$ 2,138,659	\$ 243,550	\$ 25,333	264,180	\$ 2,204	\$ 14,853	\$ 4,503	\$ 25,860	\$ 1,276	\$ 3,612,448
EXPENSE CATEGORIES															
Personnel expenses:															
Salaries and contractual services	\$ 754,795	\$ 120,226	\$ 875,021	\$ 73,382	\$ 518,388	\$ 792,005	\$ 155,849	\$ 8,927	149,843	1,314	\$ 8,763	\$ 1,947	\$ 18,181	\$ 367	\$ 1,728,966
Fringe benefits	285,695	30,942	316,637	26,756	178,941	273,672	40,110	3,617	54,875	548	3,653	812	4,678	94	587,736
Total personnel expenses	1,040,490	151,168	1,191,658	100,138	697,329	1,065,677	195,959	12,544	204,718	1,862	12,416	2,759	22,859	461	2,316,722
Operating expenses:															
Building occupancy	68,863	1,573	70,436	14,784	52,938	81,320	2,038	4371	15,597	143	956	212	238	5	172,602
Professional services	43,109	533	43,642	476	9,758	14,990	691	665	9,758	11	72	16	72	16	27,754
Travel	2,882	1,979	4,861	0	2,502	3,844	2,565	763	7,245	8	53	12	299	6	17,297
Food services	69,588	201	69,789	197	77,931	119,713	261	0	285	9	63	14	30	1	198,504
Medical and pharmacy	46,276	0	46,276	33	15,492	25,011	0	0	5,163	0	0	0	0	0	45,699
Subcontract services	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Insurance	37,448	3,631	41,079	5,283	20,353	31,265	4,707	597	6,164	78	519	115	519	115	69,715
Interest	14	0	14	0	1,517	2,330	0	0	0	9	61	13	0	0	3,930
Operating supplies	48,848	3,713	52,561	6,863	39,318	60,398	4,813	772	11,218	113	751	167	751	167	125,331
Equipment costs	101	279	380	1,817	596	916	362	0	7	0	0	0	42	1	3,741
Donated items	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
HMO expense	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Other (2)	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Total operating expenses	317,129	11,909	329,038	29,453	220,405	339,787	15,437	7,168	46,666	371	2,475	549	1,951	311	664,573
Total personnel and operating expenses	1,357,619	163,077	1,520,696	129,591	917,734	1,405,464	211,396	19,712	251,384	2,233	14,891	3,308	24,810	772	2,981,295
Distributed indirect cost:															
Administration	88,503	9,844	98,347	7,822	55,776	85,751	12,760	1,190	15,174	135	899	200	1,498	47	181,252
Total allowable operating expenses	1,446,122	172,921	1,619,043	137,413	973,510	1,491,215	224,156	20,902	266,558	2,368	15,790	3,508	26,308	819	3,162,547
Unallowable costs	137,471	3,215	140,686	2,554	24,491	206,799	4,167	389	4,955	44	294	65	489	16	244,263
Total actual operating expenses	\$ 1,583,593	\$ 176,136	\$ 1,759,729	\$ 139,967	\$ 998,001	\$ 1,698,014	\$ 228,323	\$ 21,291	271,513	\$ 2,412	\$ 16,084	\$ 3,573	\$ 26,797	\$ 835	\$ 3,406,810
Capital expenditures	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0

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

(2) Net of bad debts of \$1,169,000.

CIRCLES OF CARE, INC.

PROGRAM/COST CENTER ACTUAL EXPENSES AND REVENUES
For the year ended June 30, 2017
(continued)

FUNDING SOURCES & REVENUES	Children Substance Abuse			CAT Program	Total for State SAMH Funded	Total for Non-state Funded SAMH	Total for All State Designated SAMH	Administrative	Total Revenues
	Detox	Prevention	Total CSA						
Total state SAMH funding:									
District Seven funding (1)	\$ 192,367	\$ 157,320	\$ 349,687	\$ 750,000	\$ 12,505,923	\$ 0	\$ 12,505,923	\$ 0	\$ 12,505,923
Other government funding:									
Other state funding	0	0	0	0	0	228,760	228,760	0	228,760
Medicaid	0	133	133	0	52,452	553,768	606,220	0	606,220
Local government	0	0	0	0	1,748,507	56,000	1,804,507	0	1,804,507
Federal government	0	0	0	0	0	0	0	0	0
In-kind (local government)	0	0	0	0	0	0	0	0	0
Total other government funding	0	133	133	0	1,800,959	838,528	2,639,487	0	2,639,487
All other funding and revenues:									
Net first-party fees (2)	2,301	32,209	34,510	0	347,917	225,707	573,624	0	573,624
Net third-party fees (except Medicare) (2)	98,008	977	98,985	0	6,164,012	5,811,051	11,975,063	0	11,975,063
Medicare (2)	0	1,131	1,131	0	218,496	3,943,521	4,162,017	0	4,162,017
Donations and contributions	0	0	0	0	40,372	96	40,468	0	40,468
Other revenue	2,735	0	2,735	0	975,154	6,810,632	7,785,786	0	7,785,786
In-kind	0	0	0	0	820,160	111,840	932,000	0	932,000
Total nongovernment funding	103,044	34,317	137,361	0	8,566,111	16,902,847	25,468,958	0	25,468,958
Total all funding and revenues	\$ 295,411	\$ 191,770	\$ 487,181	\$ 750,000	\$ 22,872,993	\$ 17,741,375	\$ 40,614,368	\$ 0	\$ 40,614,368
EXPENSE CATEGORIES									
Personnel expenses:									
Salaries and contractual services	\$ 69,337	\$ 122,599	\$ 191,936	\$ 362,089	\$ 10,326,779	\$ 6,068,868	\$ 16,395,647	\$ 1,438,929	\$ 17,834,576
Fringe benefits	28,316	44,898	73,214	119,508	3,193,494	2,025,162	5,218,656	293,708	5,512,364
Total personnel expenses	97,653	167,497	265,150	481,597	13,520,273	8,094,030	21,614,303	1,732,637	23,346,940
Operating expenses:									
Building occupancy	7,279	12,761	20,040	32,272	1,467,074	575,999	2,043,073	178,402	2,221,475
Professional services	4,557	808	5,365	33,992	416,656	940,374	1,357,030	9,779	1,366,809
Travel	305	5,928	6,233	18,668	152,346	61,308	213,654	54,107	267,761
Food services	7,356	234	7,590	1,723	848,389	244,078	1,092,467	13,470	1,105,937
Medical and pharmacy	5,585	4,225	9,810	250	1,614,116	4,090,638	5,704,754	5,074	5,709,828
Subcontract services	0	0	0	0	4,000	0	4,000	0	4,000
Insurance	3,959	5,043	9,002	14,007	481,861	266,583	748,444	56,033	804,477
Interest	1	0	1	0	148,794	33,518	182,312	0	182,312
Operating supplies	5,164	9,178	14,342	27,503	692,747	498,091	1,190,838	89,202	1,280,040
Equipment costs	11	4	15	7	66,517	34,743	101,260	2,586	103,846
Donated items	0	0	0	0	0	0	0	0	0
HMO expense	0	0	0	0	0	0	0	0	0
Other (2)	0	0	0	0	0	0	0	0	0
Total operating expenses	34,217	38,181	72,398	128,422	5,892,500	6,745,332	12,637,832	408,653	13,046,485
Total personnel and operating expenses	131,870	205,678	337,548	610,019	19,412,773	14,839,362	34,252,135	2,141,290	36,393,425
Distributed indirect cost:									
Administration	9,396	12,415	21,811	75,000	1,297,264	844,026	2,141,290	(2,141,290)	0
Total allowable operating expenses	141,266	218,093	359,359	685,019	20,710,037	15,683,388	36,393,425	0	36,393,425
Unallowable costs	26,864	4,054	30,918	71,429	2,185,479	904,555	3,090,034	0	3,090,034
Total actual operating expenses	\$ 168,130	\$ 222,147	\$ 390,277	\$ 756,448	\$ 22,895,516	\$ 16,587,943	\$ 39,483,459	\$ 0	\$ 39,483,459
Capital expenditures	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0

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

(2) Net of bad debts of \$1,169,000.

CIRCLES OF CARE, INC.

SCHEDULE OF STATE EARNINGS FOR ALCOHOL,
 DRUG ABUSE, AND MENTAL HEALTH SERVICES - MATCH CALCULATION
 For the year ended June 30, 2017

Total expenditures	\$ 41,306,086
Less:	
Medicaid and other state and federal funds	(606,220)
No-match ADM funds	(2,418,013)
Unallowable costs per 65E-14, FAC	<u>(3,090,034)</u>
Total allowable expenditures	<u>\$ 35,191,819</u>
Total amount of state earnings (\$35,191,819 x 75%)	<u>\$ 26,393,864</u>
Amount of state performance contract funds received, excluding non-match portion	<u>\$ 9,974,961</u>
Amount due to department	<u>\$ 0</u>

CIRCLES OF CARE, INC.

SCHEDULE OF BED-DAY AVAILABILITY PAYMENTS
For the year ended June 30, 2017

Program A	Cost Center B	State Contracted Rate C	Total Units of Service Provided D	Total Units of Service Paid for Third-party Contracts, Local Gov't. or Other State Agencies E	Maximum Number of Units Eligible for Payment by Department (D - E) F	Amount Paid for Services by the Department G	Maximum \$ Value of Units in Column F (F x C) H	Amount Owed to Department (G - H or \$0, whichever is greater) I
CMH	Crisis Stabilization	\$372	4,745	2,013	2,732	\$377,440	\$1,016,304	\$0
AMH	Crisis Stabilization	\$372	18,250	3,118	15,132	\$3,252,628	\$5,629,104	\$0
ASA	Detox	\$253	7,300	942	6,358	\$1,379,465	\$1,608,574	\$0
CSA	Detox	\$253	1,095	184	911	\$192,367	\$230,483	\$0
Total Amount Owed to Department =								\$0

CIRCLES OF CARE, INC.

SCHEDULE OF RELATED PARTY TRANSACTIONS ADJUSTMENTS
For the year ended June 30, 2017

There were no related party transactions adjustments during the year ended June 30, 2017.



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

Shareholders/Directors

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

Directors Emeritus

Floyd C. Lemmon
Robert E. Andersen, Jr.

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

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

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the financial statements of Circles of Care, Inc. (CoC), (a nonprofit organization), which comprise the balance sheet as of June 30, 2017, and the related statements of operations and changes in net assets and cash flows for the year ended, and the related notes to the financial statements, and have issued our report thereon dated December 14, 2017.

Internal Control Over Financial Reporting

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

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

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

Compliance and Other Matters

As part of obtaining reasonable assurance about whether CoC's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

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



Davies, Houser & Secret, CPA, P.A.
Cocoa, Florida
December 14, 2017



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

Shareholders/Directors

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

Directors Emeritus

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

INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR EACH MAJOR FEDERAL PROGRAM AND STATE PROJECT AND REPORT ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY THE UNIFORM GUIDANCE AND CHAPTER 10.650, RULES OF THE AUDITOR GENERAL

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

Report on Compliance for Each Major Federal Program and State Project

We have audited Circles of Care, Inc. (CoC), (a non-profit organization), compliance with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement and the Department of Financial Services' State Projects Compliance Supplement, that could have a direct and material effect on each of CoC's major Federal programs and State projects for the year ended June 30, 2017. CoC's major Federal program and State projects are identified in the summary of auditor's results section of the accompanying schedules of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with the requirements of laws, regulations, contracts, and grants applicable to its Federal programs and State projects.

Auditor's Responsibility

Our responsibility is to express an opinion on the compliance of each of CoC's major Federal programs and State projects based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; 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); and Chapter 10.650, Rules of the Auditor General. Those standards, the Uniform Guidance and Chapter 10.650, Rules of the Auditor General, require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major Federal program or State project occurred. An audit includes examining, on a test basis, evidence about CoC's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major Federal program and State project. However, our audit does not provide a legal determination of CoC's compliance.

Opinion on Each Major Federal Program and State Project

In our opinion, CoC has complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major Federal programs and State projects for the year ended June 30, 2017.

Report on Internal Control Over Compliance

Management of CoC is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered CoC's internal control over compliance with the types of requirements that could have a direct and material effect on a major Federal program or State projects to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing our opinion on compliance for each major Federal program and State project and to test and report on internal control over compliance in accordance with the Uniform Guidance and Chapter 10.650, Rules of the Auditor General, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of CoC's internal control over compliance.

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

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

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the Uniform Guidance and Chapter 10.650, Rules of the Auditor General. Accordingly, this report is not suitable for any other purpose.



Davies, Houser & Secret, CPA, P.A.
Cocoa, Florida
December 14, 2017

CIRCLES OF CARE, INC.

SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FEDERAL AWARDS

For the year ended June 30, 2017

I. Summary of Auditor's Results	Answers
1. Type of report issued on financial statements	Unmodified
2. Significant deficiencies in internal control disclosed by the audit of the financial statements	None
3. Noncompliance which is material to the audited financial statements	None
4. Significant deficiencies in internal control over major programs disclosed by the audit	None
5. Type of report on compliance for major programs	Unmodified
6. Audit findings required to be reported in accordance with 2 CFR 200.516(a)	None
7. Identification of Major Federal Program U.S. Department of Health and Human Services: Block Grant for Prevention and Treatment of Substance Abuse	CFDA #93.959
8. Dollar threshold for Type A programs	\$750,000
9. Low risk auditee	Yes
II. Findings required to be reported in accordance with generally accepted <i>Government Auditing Standards</i>	None
III. Findings and questioned costs for federal awards	None

CIRCLES OF CARE, INC.

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
FEDERAL AWARDS PROGRAMS
For the year ended June 30, 2017

No prior year findings.

CIRCLES OF CARE, INC.

SCHEDULE OF FINDINGS AND QUESTIONED COSTS
STATE FINANCIAL ASSISTANCE PROJECTS
For the year ended June 30, 2017

I. Summary of Auditor's Results	Answers
1. Type of report issued on financial statements	Unmodified
2. Significant deficiencies in internal control disclosed by the audit of the financial statements	None
3. Noncompliance which is material to the audited financial statements	None
4. Significant deficiencies in internal control over major programs disclosed by the audit	None
5. Type of report on compliance for major programs	Unmodified
6. Audit findings required to be reported under Chapter 10.656 of the Rules of the Auditor General	None No Management Letter Issued
7. Identification of Major State Projects U.S. Department of Health and Human Services: Substance Abuse and Mental Health Services SAMH – Community Service	CSFA #60.153 CSFA #60.155
8. Dollar threshold for Type A programs	\$750,000
II. Findings required to be reported in accordance with generally accepted <i>Government Auditing Standards</i>	None
III. Findings and questioned costs for State projects as defined under Chapter 10.656(1)(h)4d, Rules of the Auditor General	None
IV. Prior year's audit findings	None