

SALUSCARE, INC.

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

**YEARS ENDED
JUNE 30, 2017 AND 2016**

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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
SalusCare, Inc.
3763 Evans Avenue
Fort Myers, Florida 33901

Report on the Financial Statements

We have audited the accompanying consolidated financial statements of SalusCare, Inc. (a nonprofit organization) ("SalusCare") which comprise the consolidated statements of financial position as of June 30, 2017 and 2016, and the related consolidated statements of activities, functional expenses, and cash flows for the years then ended and the related notes to the consolidated financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in 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 consolidated 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 consolidated financial statements based on our audit. We did not audit the financial statements of LMHC Properties, Inc., which reflect total assets and unrestricted support and revenue constituting 2.45% and .52%, respectively, as of June 30, 2017; and 2.45% and .51%, respectively, as of June 30, 2016, of the related consolidated totals. Those statements were audited by other auditors, whose report has been furnished to us, and our opinion, insofar as it relates to the amounts included for LMHC Properties, Inc., is based solely on the report of the other auditors. The financial statements of LMHC Properties, Inc. were audited in accordance with Government Auditing Standards. 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 of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

INTEGRITY SERVICE EXPERIENCE

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

An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

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

Opinion

In our opinion, based on our audit and the reports of other auditors, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of SalusCare, Inc. as of June 30, 2017 and 2016, and the changes in their 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

Other Information

Our audit was conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The schedules of revenues and expenses by cost center, the schedule of state earnings, the schedule of bed-day availability payments, the schedule of related party transaction adjustments, and the consolidating schedules are presented for the purposes of additional analysis and are not a required part of the consolidated financial statements. The accompanying schedule of expenditures of federal awards and state financial assistance for the year ended June 30, 2017 and the notes thereto are presented for purposes of additional analysis as required by the audit requirements of Title 2 U.S. Code of Federal Regulations (CFR) Part 200, "Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards" (Uniform Guidance), and are not a required part of the consolidated financial statements.

The consolidating schedules and the schedule of expenditures of federal awards and state financial assistance is the responsibility of management and was derived from and relate directly to the underlying accounting and other records used to prepare the consolidated financial statements. Such information has been subjected to the auditing procedures applied in the audit of the consolidated

financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the consolidated financial statements or to the consolidated financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the consolidating schedules and the schedule of expenditures of federal awards and state financial assistance and the notes thereto are fairly stated in all material respects in relation to the consolidated financial statements taken as a whole.

The schedules of revenues and expenses by cost center, the schedule of state earnings, the schedule of bed-day availability payments and schedule of related party transaction adjustments have not been subjected to the auditing procedures applied in the audit of the basic consolidated financial statements and, accordingly, we do not express an opinion or provide any assurance on them.

Prior Period Financial Statements

The consolidated financial statements of SalusCare, Inc. as of and for the year ended June 30, 2016, were audited by other auditors, whose report dated February 27, 2017, expressed an unmodified opinion on those statements.

Other Information

The Exhibit - Management's Response to Independent Auditor's Report to Management, is not a required part of the consolidated financial statements but is required by Government Auditing Standards. Such information has not been subjected to the auditing procedures applied in the audit of the consolidated 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 November 15, 2017, on our consideration of SalusCare, 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 SalusCare, Inc.'s internal control over financial reporting and compliance.

Tuscan & Company, P.A.

TUSCAN & COMPANY, P.A.
Fort Myers, Florida
November 15, 2017

SALUSCARE, INC.
CONSOLIDATED STATEMENTS OF FINANCIAL POSITION
June 30, 2017 and 2016

	<u>2017</u>	<u>2016</u>
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents (including restricted cash of \$627,023 and \$611,821, respectively)	\$ 4,661,612	\$ 5,075,157
Contracts receivable, net	2,303,221	2,300,175
Accounts receivable, net	889,202	925,770
Contributions receivable	14,670	14,670
Prepays and inventory	<u>372,699</u>	<u>233,923</u>
TOTAL CURRENT ASSETS	8,241,404	8,549,695
CONTRIBUTIONS RECEIVABLE, NET	586,808	601,478
INVESTMENTS	173,656	146,130
PROPERTY AND EQUIPMENT, NET	17,491,689	18,430,638
OTHER ASSETS	<u>8,486</u>	<u>33,897</u>
TOTAL ASSETS	<u>\$ 26,502,043</u>	<u>\$ 27,761,838</u>
LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES		
Accounts payable	\$ 922,794	\$ 1,219,247
Unearned (deferred) revenue	103,535	32,718
Accrued expenses	642,923	1,130,204
Current portion of long-term debt	<u>393,091</u>	<u>371,868</u>
TOTAL CURRENT LIABILITIES	2,062,343	2,754,037
LONG-TERM LIABILITIES		
Long-term debt, net	8,644,523	9,033,489
Derivative financial instruments	388,295	808,210
Compensated absences	<u>-</u>	<u>1,539</u>
TOTAL LONG-TERM LIABILITIES	<u>9,032,818</u>	<u>9,843,238</u>
TOTAL LIABILITIES	<u>11,095,161</u>	<u>12,597,275</u>
NET ASSETS		
Unrestricted	14,087,409	13,852,110
Temporarily restricted	1,212,624	1,214,756
Permanently restricted	<u>106,849</u>	<u>97,697</u>
TOTAL NET ASSETS	<u>15,406,882</u>	<u>15,164,563</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 26,502,043</u>	<u>\$ 27,761,838</u>

The accompanying notes are an integral part of this statement.

SALUSCARE, INC.
CONSOLIDATED STATEMENT OF ACTIVITIES
Years ended June 30, 2017 and 2016

	2017	2016
UNRESTRICTED NET ASSETS		
SUPPORT AND REVENUE		
Support:		
State grants	\$ 13,320,705	\$ 13,754,929
Other governmental	5,448,140	6,251,576
Contributions and in-kind revenue	502,402	614,516
TOTAL SUPPORT	19,271,247	20,621,021
Revenue:		
Net client fee revenue	8,339,251	8,932,592
Interest income	26,395	7,495
Unrealized gain (loss) on derivative financial instruments/investments	438,593	(133,708)
Other income	813,686	687,145
TOTAL REVENUE	9,617,925	9,493,524
Net assets released from restrictions:		
Satisfaction of program restrictions	34,782	42,162
TOTAL UNRESTRICTED SUPPORT AND REVENUE	28,923,954	30,156,707
Expenses and losses:		
Program Services:		
Adult mental health	13,243,822	13,102,714
Children's mental health	3,418,754	3,921,621
Children and family services	1,480,441	1,943,462
Adult substance abuse	6,289,261	6,471,220
Children's substance abuse	1,531,839	1,566,325
Other support services	2,580,224	2,439,556
TOTAL PROGRAM SERVICES	28,544,341	29,444,898
Support services:		
Real estate holding company	144,314	147,213
TOTAL SUPPORT SERVICES	144,314	147,213
TOTAL UNRESTRICTED EXPENSES	28,688,655	29,592,111
INCREASE (DECREASE) IN UNRESTRICTED NET ASSETS	235,299	564,596
TEMPORARILY RESTRICTED NET ASSETS		
Contributions	32,650	29,372
Net assets released from restrictions:		
Satisfaction of program restrictions	(34,782)	(42,162)
INCREASE (DECREASE) IN TEMPORARILY RESTRICTED NET ASSETS	(2,132)	(12,790)
PERMANENTLY RESTRICTED NET ASSETS		
Unrealized gain on investment	9,152	(3,163)
INCREASE (DECREASE) IN PERMANENTLY RESTRICTED NET ASSETS	9,152	(3,163)
CHANGE IN NET ASSETS	242,319	551,806
NET ASSETS - BEGINNING OF YEAR	15,164,563	14,612,757
NET ASSETS - END OF YEAR	\$ 15,406,882	\$ 15,164,563

The accompanying notes are an integral part of this statement.

SALUSCARE, INC.
CONSOLIDATED STATEMENTS OF FUNCTIONAL EXPENSES
Year ended June 30, 2017

	Program Services					
	Adult Mental Health	Children's Mental Health	Children and Family Services	Adult Substance Abuse	Children's Substance Abuse	Other Program Services
PERSONNEL EXPENSES						
Salaries	\$ 7,492,411	\$ 1,693,364	\$ 782,813	\$ 3,208,631	\$ 777,015	\$ 1,395,982
Fringe benefits	<u>1,572,415</u>	<u>433,587</u>	<u>208,957</u>	<u>787,841</u>	<u>209,515</u>	<u>385,996</u>
Total Personnel Expenses	9,064,826	2,126,951	991,770	3,996,472	986,530	1,781,978
OPERATING EXPENSES						
Building & occupancy	353,146	106,663	35,259	537,139	177,523	228,101
Professional services	1,046,896	455,224	74,244	204,816	48,516	64,576
Travel	125,154	30,091	60,571	26,598	5,205	4,690
Equipment costs	303,106	61,632	40,416	134,407	25,230	70,274
Food services	70,573	26,045	3	179,125	67,271	8,958
Medicine and pharmacy	289,752	63,137	22,999	225,822	17,318	12,353
Insurance	176,122	46,786	16,712	116,052	28,691	34,905
Interest paid	-	-	-	-	-	-
Operating supplies and expenses	371,046	96,645	49,817	198,452	41,880	81,548
Bad debt/tax	<u>575,130</u>	<u>126,107</u>	<u>2,341</u>	<u>184,212</u>	<u>41,654</u>	<u>39</u>
Total Operating Expenses	3,310,925	1,012,330	302,362	1,806,623	453,288	505,444
Total Direct Expenses	12,375,751	3,139,281	1,294,132	5,803,095	1,439,818	2,287,422
ALLOCATED EXPENSES						
Administration	<u>868,071</u>	<u>279,473</u>	<u>186,309</u>	<u>486,166</u>	<u>92,021</u>	<u>292,802</u>
Total Allocated Expenses	868,071	279,473	186,309	486,166	92,021	292,802
Total Expenses	<u>\$ 13,243,822</u>	<u>\$ 3,418,754</u>	<u>\$ 1,480,441</u>	<u>\$ 6,289,261</u>	<u>\$ 1,531,839</u>	<u>\$ 2,580,224</u>

The accompanying notes are an integral part of this statement.

<u>Support Services</u>			
Total Program	Administration and Support	LMHC Properties, Inc.	Total Expenses
\$ 15,350,216	\$ 1,030,820	\$ 16,043	\$ 16,397,079
<u>3,598,311</u>	<u>267,563</u>	-	<u>3,865,874</u>
18,948,527	1,298,383	16,043	20,262,953
1,437,831	22,180	68,478	1,528,489
1,894,272	233,529	21,622	2,149,423
252,309	8,892	-	261,201
635,065	14,034	-	649,099
351,975	3,427	-	355,402
631,381	2,920	-	634,301
419,268	1,240	13,278	433,786
-	435,326	-	435,326
839,388	184,911	24,287	1,048,586
<u>929,483</u>	<u>-</u>	<u>606</u>	<u>930,089</u>
7,390,972	906,459	128,271	8,425,702
26,339,499	2,204,842	144,314	28,688,655
<u>2,204,842</u>	<u>(2,204,842)</u>	<u>-</u>	<u>-</u>
<u>2,204,842</u>	<u>(2,204,842)</u>	<u>-</u>	<u>-</u>
<u>\$ 28,544,341</u>	<u>\$ -</u>	<u>\$ 144,314</u>	<u>\$ 28,688,655</u>

The accompanying notes are an integral part of this statement.

SALUSCARE, INC.
CONSOLIDATED STATEMENTS OF FUNCTIONAL EXPENSES
Year ended June 30, 2016

	Program Services					
	Adult Mental Health	Children's Mental Health	Children and Family Services	Adult Substance Abuse	Children's Substance Abuse	Other Program Services
PERSONNEL EXPENSES						
Salaries	\$ 6,687,750	\$ 1,872,812	\$ 963,534	\$ 3,150,318	\$ 723,102	\$ 1,196,101
Fringe benefits	<u>1,410,900</u>	<u>508,137</u>	<u>266,139</u>	<u>821,028</u>	<u>202,424</u>	<u>343,281</u>
Total Personnel Expenses	8,098,650	2,380,949	1,229,673	3,971,346	925,526	1,539,382
OPERATING EXPENSES						
Building & occupancy	326,533	110,068	42,034	569,924	179,629	227,446
Professional services	1,651,616	504,768	179,156	132,591	78,088	56,643
Travel	106,040	39,211	83,646	32,285	1,494	8,933
Equipment costs	254,573	107,885	64,550	173,274	37,724	84,837
Food services	64,221	21,388	-	222,408	78,615	8,420
Medicine and pharmacy	193,842	33,087	3,383	177,036	17,690	10,952
Insurance	179,545	53,698	22,348	146,955	41,030	39,952
Interest paid	-	-	-	-	-	-
Operating supplies and expenses	411,785	109,526	65,710	228,105	51,466	104,485
Bad debt/tax	<u>697,766</u>	<u>141,075</u>	<u>3,022</u>	<u>277,167</u>	<u>45,347</u>	<u>650</u>
Total Operating Expenses	3,885,921	1,120,706	463,849	1,959,745	531,083	542,318
Total Direct Expenses	11,984,571	3,501,655	1,693,522	5,931,091	1,456,609	2,081,700
ALLOCATED EXPENSES						
Administration	<u>1,118,143</u>	<u>419,966</u>	<u>249,940</u>	<u>540,129</u>	<u>109,716</u>	<u>357,856</u>
Total Allocated Expenses	1,118,143	419,966	249,940	540,129	109,716	357,856
Total Expenses	<u>\$ 13,102,714</u>	<u>\$ 3,921,621</u>	<u>\$ 1,943,462</u>	<u>\$ 6,471,220</u>	<u>\$ 1,566,325</u>	<u>\$ 2,439,556</u>

The accompanying notes are an integral part of this statement.

<u>Support Services</u>			
Total Program	Administration and Support	LMHC Properties, Inc.	Total Expenses
\$ 14,593,617	\$ 1,456,238	\$ 17,450	\$ 16,067,305
<u>3,551,909</u>	<u>349,044</u>	<u>-</u>	<u>3,900,953</u>
18,145,526	1,805,282	17,450	19,968,258
1,455,634	32,016	62,464	1,550,114
2,602,862	263,279	20,715	2,886,856
271,609	16,724	-	288,333
722,843	17,194	-	740,037
395,052	5,038	-	400,090
435,990	6,044	-	442,034
483,528	1,119	14,434	499,081
-	470,003	-	470,003
-	-	-	-
971,077	179,051	31,037	1,181,165
<u>1,165,027</u>	<u>-</u>	<u>1,113</u>	<u>1,166,140</u>
8,503,622	990,468	129,763	9,623,853
26,649,148	2,795,750	147,213	29,592,111
<u>2,795,750</u>	<u>(2,795,750)</u>	<u>-</u>	<u>-</u>
<u>2,795,750</u>	<u>(2,795,750)</u>	<u>-</u>	<u>-</u>
<u>\$ 29,444,898</u>	<u>\$ -</u>	<u>\$ 147,213</u>	<u>\$ 29,592,111</u>

The accompanying notes are an integral part of this statement.

SALUSCARE, INC.
CONSOLIDATED STATEMENTS OF CASH FLOWS
Years ended June 30, 2017 and 2016

	<u>2017</u>	<u>2016</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Cash received from contracts, client fees and donations	\$ 28,599,214	\$ 30,167,679
Cash payments for program and support services	(27,924,239)	(27,249,107)
Cash received from interest income	(1,141)	7,495
Cash payments for interest expense	(435,326)	(470,003)
NET CASH PROVIDED BY OPERATING ACTIVITIES	<u>238,508</u>	<u>2,456,064</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchases of property and equipment	(284,654)	(952,170)
Proceeds from sale of property and equipment	4,469	43,660
Proceeds from sale of investments	-	25,290
NET CASH USED BY INVESTING ACTIVITIES	<u>(280,185)</u>	<u>(883,220)</u>
CASH FLOWS FROM FINANCING ACTIVITIES		
Payments of notes payable	(371,868)	(352,648)
NET INCREASE (DECR) IN CASH AND CASH EQUIVALENTS	(413,545)	1,220,196
Cash and Cash Equivalents - Beginning of Year	<u>5,075,157</u>	<u>3,854,961</u>
CASH AND CASH EQUIVALENTS - END OF YEAR	<u>\$ 4,661,612</u>	<u>\$ 5,075,157</u>
RECONCILIATION OF CHANGE IN NET ASSETS TO NET CASH PROVIDED BY OPERATION ACTIVITIES		
Change in net assets	\$ 242,319	\$ 551,806
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation	1,213,422	1,254,045
Amortization of debt issuance costs	4,125	12,208
Loss on disposal of property and equipment	5,712	49,965
Contributions receivable - non cash	14,670	14,670
Unrealized (gain) loss on derivative financial instruments	(419,915)	131,185
Net realized/unrealized (gain) loss on investments	(27,526)	2,523
(Increase) decrease in contracts receivable	(3,046)	(539,624)
(Increase) decrease in accounts receivable, net	36,568	380,751
(Increase) decrease in prepaids and inventory	(138,776)	(49,833)
(Increase) decrease in other assets	25,411	(1,913)
Increase (decrease) in accounts payable	(296,453)	421,550
Increase (decrease) in unearned (deferred) revenue	70,817	(12,945)
Increase (decrease) in accrued liabilities	(487,281)	249,067
Increase (decrease) in compensated absences	(1,539)	(7,391)
Total adjustments	<u>(3,811)</u>	<u>1,904,258</u>
NET CASH PROVIDED BY OPERATING ACTIVITIES	<u>\$ 238,508</u>	<u>\$ 2,456,064</u>

NON CASH TRANSACTIONS

SalusCare recorded non-cash revenue and expense for in-kind gifts and services of \$103,099 and \$111,782, for the years ended June 30, 2017 and 2016, respectively.

The accompanying notes are an integral part of this statement.

NOTE A - ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Organization and nature of operations

These financial statements present the consolidated financial results of SalusCare, Inc. and LMHC Properties, Inc., with all significant balances and transactions between the entities eliminated. Together, SalusCare, Inc. and LMHC Properties, Inc. are referred to in the notes to the consolidated financial statements as “SalusCare” in these consolidated/consolidating financial statements and related notes.

SalusCare, Inc. and LMHC Properties, Inc. are related nonprofit corporations formed for the promotion and treatment of behavioral health and related issues for Southwest Florida. These organizations plan, develop, and implement services which are designed to promote mental health, provide counseling, and prevent substance abuse for the citizens of Southwest Florida. SalusCare's support comes primarily from Federal, State and local government grants.

SalusCare formed when the board of directors of Lee Mental Health Center, Inc. (LMH) and Southwest Florida Addiction Services, Inc. (SWFAS) entered into a plan of merger effective July 1, 2013. In accordance with the provisions of the Florida Not For Profit Corporation Act, SWFAS merged with and into LMH, the separate existence of SWFAS ceased, and LMH shall continue to exist as the surviving entity. The surviving corporation changed its name to SalusCare, Inc.

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

Financial Statement Presentation

The accounting and reporting policies of SalusCare conform with the accounting principles generally accepted in the United States of America, and are in accordance with the Audit and Accounting Guide issued by the American Institute of Certified Public Accountants, Not-For-Profit Organizations and the accounting standards issued by the Financial Accounting Standards Board (FASB) in the Accounting Standards Codification (ASC).

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

Basis of presentation

SalusCare is required to report information regarding its financial position and activities according to three classes of net assets: unrestricted, temporarily restricted, or permanently restricted, depending on the nature of any donor restrictions. Unrestricted net assets include those net assets whose use is not restricted by donors, even though their use may be limited in other respects, such as by contract or by board designation. Temporarily restricted net assets include those assets whose use by SalusCare has been limited by donors to either later periods of time or after specified dates or specified purposes. Permanently restricted net assets include those net assets whose use is restricted to investment in perpetuity.

Principles of consolidation

The consolidated financial statements of SalusCare include the accounts of SalusCare, Inc. and LMHC Properties, Inc., after elimination of all material intercompany accounts and transactions.

Basis of accounting

SalusCare prepares its financial statements on the accrual basis of accounting. Grant revenues are recorded as support when performance occurs under the terms of the grant agreement. Grant revenue includes all resources received from another entity in accordance with a contract, entitlement, or grant document. Net client fee revenue is recognized when services are provided.

The cost of providing the various programs and other activities have been detailed in the consolidated statements of functional expenses and summarized on a functional basis in the consolidated statements of activities. Salaries and other expenses that are associated with a specific program are charged directly to that program. Salaries and other expenses that benefit more than one program are allocated to the various programs based on the relative benefit provided. Administrative expenses are allocated to the various programs based on each program's full time positions. Occupancy costs are allocated to the various programs based on square footage occupied by each program. SalusCare does not actively engage in fundraising activities; therefore, no fundraising expenses are included in the accompanying consolidated financial statements.

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

Reclassification

Certain accounts in the prior-year financial statements have been reclassified for comparative purposes to conform with the presentation in the current-year financial statements. Such reclassification had no effect on previously reported net assets or changes in net asset amounts.

Cash and cash equivalents

Cash is stated at the book balance which approximates fair value. Cash is comprised of cash on hand, depository accounts and money market accounts. SalusCare 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.

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

Accounts and contracts receivable

Accounts and contracts receivable are stated at net realizable value. The allowance for doubtful accounts is SalusCare's estimate of the amount of probable credit losses in its existing accounts and contracts receivable; however, changes in circumstances relating to accounts and contract receivable may result in a requirement for additional allowances in the future. SalusCare determines that allowance based on historical write-off experience and current economic factors. SalusCare continually reviews its allowance for doubtful accounts. Past due balances over 90 days and other higher risk amounts are reviewed individually for collectability.

Based on management's assessment, SalusCare provides for estimated uncollectible amounts through a charge to bad debt expense and a credit to a valuation allowance. Account balances are charged against the allowance after all collection efforts have been exhausted and the potential for recovery is considered remote.

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

Investments

Investments of common stock with readily determinable fair values are stated at fair value based on quoted market rates. The investments held by the Southwest Florida Community Foundation (the "Foundation") are measured at the values reported to SalusCare by the Foundation, which approximates fair value. Unrealized gains/(losses) on investments amounted to \$27,525 and \$(22,813) for the years ended June 30, 2017 and 2016, respectively. Realized gains on investments totaled \$305 and \$20,290 for the years ended June 30, 2017 and 2016, respectively.

The preceding methods described may produce a fair value calculation that may not be indicative of net realizable value or reflective of future fair values. Furthermore, although SalusCare believes its valuation methods are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different fair value measurement at the reporting date.

Property and equipment

Property and equipment (fixed assets) are recorded at original 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, SalusCare reports expirations of donor restrictions when the donated or acquired assets are placed in service as instructed by the donor. SalusCare reclassifies temporarily restricted net assets to unrestricted net assets at that time. SalusCare capitalizes assets with a cost or donated fair value of \$1,000 or more and a useful life of one year or more. For the years ended June 30, 2017 and 2016, debt related interest costs were capitalized as part of property and equipment in the amount of \$0 and \$0, respectively. The cost of assets retired or sold, together with the related accumulated depreciation, is removed from the accounts and any gain or loss is recognized. Disposition of items acquired from certain State contracts require State approval. Expenditures for major renewals and betterments that extend the useful lives of property and equipment are capitalized. Expenditures for maintenance and repairs are charged to expense as incurred.

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 ranging from 3 to 40 years. 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.

The Federal government, as well as the State of Florida have 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.

Property and equipment classified as held for sale are measured at their carrying value and expected to be sold within one year. Assets are classified as held for sale if their carrying amounts will be recovered through a sale transaction rather than through continuing use. Property and equipment once classified as held for sale are not depreciated.

Impairment of fixed assets

SalusCare 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 SalusCare's consolidated financial statements resulting from FASB ASC 360-10-50-2 for the years ended June 30, 2017 or 2016.

Debt issuance costs

Issuance costs related to long-term debt are netted against the respective debt instrument in these consolidated financial statements and are amortized over the life of the debt using the effective interest method. Amortization of the debt issuance cost is expensed to interest expense. Issuance costs capitalized total \$242,434 and are shown net of accumulated amortization of \$155,814 and \$151,689 for the years ended June 30, 2017 and 2016, respectively, in the consolidated statements of financial position.

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

Compensated absences

SalusCare's policy allows for the accumulation of employee leave time based on the employee's years of service. This policy does not allow the payment of this amount when the employee terminates employment. SalusCare allows for employee accrual of a maximum of 240 hours of paid time off to be carried at any one time.

Income taxes

The Internal Revenue Service has determined that SalusCare, Inc. and LMHC Properties, Inc. are exempt from federal income tax under Section 501(c)(3) of the Internal Revenue Code. SalusCare, Inc. and LMHC Properties, Inc. are both nonprofit Florida corporations and, therefore, not subject to state income taxes.

SalusCare, Inc. and LMHC Properties, Inc. are not classified as private foundations within the meaning of Section 509(a) of the Code.

The Internal Revenue Code provides for taxation of unrelated business income under certain circumstances. SalusCare, Inc. and LMHC Properties, Inc. report no unrelated business taxable income except for certain rental 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 SalusCare has adopted this guidance. SalusCare 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 SalusCare to expense advertising costs when incurred.

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

Contributions

As required, SalusCare records contributions received as increases in unrestricted, temporarily restricted, or permanently restricted net assets, depending on the existence or nature of any donor restrictions. All donor-restricted contributions are reported as increases in temporarily or permanently restricted net assets depending on the nature of the restrictions. When a restriction expires, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the consolidated statements of activities as net assets released from restrictions.

Unconditional promises to give (pledges) are recognized as support in the period received. Promises to give are recorded at net realizable value if expected to be collected in one year. Conditional promises to give are recognized when the conditions on which they depend are substantially met. Unconditional promises to give to be received after one year are discounted at an appropriate discount rate commensurate with the risks involved. Amortization of discounts is recorded as additional contribution revenue in accordance with donor-imposed restrictions, if any, on the contributions.

Contributions of assets, other than cash, are recorded at their estimated fair value on the date received. Contributions of donated services that create or enhance non-financial assets or that require specialized skills are provided by individuals possessing those skills, and would typically need to be purchased if not provided by donation, are recorded at their estimated fair values in the period received. Contributions of non cash items primarily consisted of medicines for clients of SalusCare.

Unearned revenue

Amounts received but not yet earned, relating to grant income received in a lump sum, are reported as unearned (deferred) revenue.

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

Fair value of financial instruments

SalusCare's financial instruments are cash and cash equivalents, contracts receivable, accounts receivable, contributions receivable, investments, accounts payable, unearned (deferred) revenue, accrued expenses, and long-term debt. The recorded values of cash and cash equivalents, accounts receivable, accounts payable, certain accrued expenses, and unearned (deferred) revenue approximate their fair values based on their short-term nature. The carrying value of contributions receivable and certain accrued expenses are based on discounted cash flows, which approximates fair value at June 30, 2017 and 2016. The fair value of interest rate swap is estimated based on the current interest rates at June 30, 2017 and 2016. The fair value of the SalusCare's long-term debt is recorded based on the current outstanding balance.

Concentrations

SalusCare receives substantially all of its revenue from government sources. If a significant reduction in the level of funding were to occur, it could have an adverse effect on SalusCare's programs and activities.

Current vulnerability due to certain concentrations

SalusCare operates in a heavily regulated environment. The operations of SalusCare 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) and the State of Florida. Such administrative directives, rules and regulations are subject to change by an act of Congress and state Legislature, 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.

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

Functional expenses

SalusCare 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 SalusCare's programs have been charged directly to the programs. Substantially all the supporting services expenses incurred by SalusCare directly benefit the programs, as such, allocation of these supporting services costs has been made by SalusCare.

Estimates

The preparation of consolidated financial statements, in conformity with accounting principles generally accepted in the United States of America, requires management to make estimates and assumptions that affect certain reported amounts and disclosures in the financial statements. Such estimates primarily relate to unsettled transactions and events as of the date of the consolidated financial statements. Accordingly, upon settlement, actual results may differ from estimated amounts.

Fair value measurements

SalusCare measures fair value using a three-level hierarchy for fair value measurements based upon the transparency of inputs to the valuation of an asset or liability. Inputs may be observable or unobservable and refer broadly to the assumptions that market participants would use in pricing the asset or liability.

Observable inputs reflect the assumptions market participants would use in pricing the asset or liability based on market data obtained from sources independent of the reporting entity. Unobservable inputs reflect the reporting entity's own assumptions about the assumptions that market participants would use in pricing the asset or liability developed based on the best information available in the circumstances.

The objective of a fair value measurement is to determine 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 (an exit price). Accordingly, the fair value hierarchy gives the highest priority to quoted prices (unadjusted) in active markets for identical assets or liabilities (Level 1) and the lowest priority to unobservable inputs (Level 3). SalusCare may use valuation techniques consistent with the market, income, and cost approaches to measure fair value.

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

Fair value measurements, continued

The inputs used to measure fair value are categorized into the following three categories:

Level 1 - Inputs that reflect unadjusted quoted prices in active markets for identical investments, such as stocks, corporate, and government bonds that SalusCare has the ability to access as of the measurement date.

Level 2 - Inputs, other than quoted prices, that are observable for the asset or liability either directly or indirectly, including inputs from markets that are not considered to be active.

Level 3 - Inputs that are unobservable. Unobservable inputs reflect SalusCare's own assumptions about the factors market participants would use in pricing an investment, and is based on the best information available in the circumstances.

Professional standards allow entities the irrevocable option to elect to measure certain financial instruments and other items at fair value for the initial and subsequent measurement on an instrument-by-instrument basis. SalusCare adopted the policy to value its financial instruments at fair value. SalusCare has not elected to measure any existing financial instruments at fair value; however, it may elect to measure newly acquired financial instruments at fair value in the future.

Subsequent events

In preparing these consolidated financial statements, SalusCare has evaluated events and transactions for potential recognition or disclosure through November 15, 2017, the date the consolidated financial statements were available to be issued.

SALUSCARE, INC.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
June 30, 2017 and 2016

NOTE B - CASH, CASH EQUIVALENTS AND INVESTMENTS

Cash and cash equivalents consist of the following at June 30:

	<u>2017</u>	<u>2016</u>
Cash on hand	\$ 3,255	\$ 3,420
Depository accounts	<u>4,658,357</u>	<u>5,071,737</u>
	<u>\$ 4,661,612</u>	<u>\$ 5,075,157</u>

Cash and cash equivalents consist of the following at June 30:

	<u>2017</u>	<u>2016</u>
Unrestricted		
Cash on hand	\$ 3,255	\$ 3,420
Cash, SalusCare	4,027,666	4,455,452
Cash, LMHC Properties	<u>3,668</u>	<u>4,464</u>
	4,034,589	4,463,336
Restricted		
Special purpose fund	605,809	583,477
LMHC Properties replacement reserve	15,877	13,213
Other	<u>5,337</u>	<u>15,131</u>
	<u>627,023</u>	<u>611,821</u>
	<u>\$ 4,661,612</u>	<u>\$ 5,075,157</u>

SalusCare maintains cash balances at several financial institutions. Accounts at each institution are insured by the Federal Deposit Insurance Corporation ("FDIC") up to a total of \$250,000 per institution. The uninsured balance as of June 30, 2017 was \$4,456,298, based on the bank balances, less the FDIC insurance. SalusCare has not experienced any losses on such accounts and believes it is not exposed to any significant credit risk on cash and cash equivalents.

NOTE C - ACCOUNTS RECEIVABLE, NET

Accounts receivable consisted of the following at June 30:

	<u>2017</u>	<u>2016</u>
Self-Pay and Insurance	\$ 622,615	\$ 693,235
Medicaid	751,563	701,591
Medicare	84,536	174,121
Other	<u>75,287</u>	<u>19,921</u>
Total	1,534,001	1,588,868
Less: Allowance for Doubtful Accounts	<u>(644,799)</u>	<u>(663,098)</u>
Total	<u>\$ 889,202</u>	<u>\$ 925,770</u>

SALUSCARE, INC.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
June 30, 2017 and 2016

NOTE C - ACCOUNTS RECEIVABLE, NET, CONTINUED

Bad debt expense for the years ended June 30, 2017 and 2016 was \$929,483 and \$1,174,982, respectively.

NOTE D - CONTRIBUTIONS RECEIVABLE, NET

Contributions receivable consisted of the following at June 30:

	<u>2017</u>	<u>2016</u>
Contributions Receivable - Fair Value of Land Lease	\$ 601,478	\$ 616,148
Amounts Due in:		
Less Than One Year	\$ 14,670	\$ 14,670
One to Five Years	73,350	73,350
More Than Five Years	<u>513,458</u>	<u>528,128</u>
Total	<u>\$ 601,478</u>	<u>\$ 616,148</u>

NOTE E - PROPERTY AND EQUIPMENT

Property and equipment consisted of the following at June 30:

	<u>2017</u>	<u>2016</u>
Land	\$ 1,541,898	\$ 1,541,898
Buildings and Improvements	26,115,106	26,003,347
Furniture and Equipment	4,245,662	4,208,880
Vehicles	337,154	329,251
Construction in Progress	<u>58,500</u>	<u>6,722</u>
Total	32,298,320	32,090,098
Less: Accumulated Depreciation	<u>(14,806,631)</u>	<u>(13,659,460)</u>
Total	<u>\$ 17,491,689</u>	<u>\$ 18,430,638</u>

Depreciation expense for the years ended June 30, 2017 and 2016 was \$1,213,422 and \$1,254,045, respectively.

SALUSCARE, INC.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
June 30, 2017 and 2016

NOTE F - FAIR VALUE MEASUREMENTS

The following table sets forth by level, within the fair value hierarchy, SalusCare's assets and liabilities at fair value as of June 30:

	2017			
	Total	Level 1	Level 2	Level 3
Assets:				
Common Stocks	\$ 66,807	\$ 66,807	\$ -	\$ -
Beneficial Interest held at Southwest Florida Community Foundation	106,849	-	-	106,849
Total Assets at Fair Value	<u>\$ 173,656</u>	<u>\$ 66,807</u>	<u>\$ -</u>	<u>\$ 106,849</u>
Liabilities:				
Derivative Instrument - Interest Rate Swap	\$ 388,295	\$ -	\$ 388,295	\$ -
Total Liabilities at Fair Value	<u>\$ 388,295</u>	<u>\$ -</u>	<u>\$ 388,295</u>	<u>\$ -</u>

The following table sets forth by level, within the fair value hierarchy, SalusCare's assets and liabilities at fair value as of June 30:

	2016			
	Total	Level 1	Level 2	Level 3
Assets:				
Common Stocks	\$ 48,433	\$ 48,433	\$ -	\$ -
Beneficial Interest held at Southwest Florida Community Foundation	97,697	-	-	97,697
Total Assets at Fair Value	<u>\$ 146,130</u>	<u>\$ 48,433</u>	<u>\$ -</u>	<u>\$ 97,697</u>
Liabilities:				
Derivative Instrument - Interest Rate Swap	\$ 808,210	\$ -	\$ 808,210	\$ -
Total Liabilities at Fair Value	<u>\$ 808,210</u>	<u>\$ -</u>	<u>\$ 808,210</u>	<u>\$ -</u>

The following table sets forth a summary of changes in the fair value of SalusCare's Level 3 assets for the year ended June 30:

	2017	2016
Balance - Beginning of Year	\$ 97,697	\$ 100,860
Net Unrealized Gains (Loss)	9,152	(3,163)
Balance - End of Year	<u>\$ 106,849</u>	<u>\$ 97,697</u>

SALUSCARE, INC.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
June 30, 2017 and 2016

NOTE G - ACCRUED EXPENSES

Accrued expenses consisted of the following at June 30:

	<u>2017</u>	<u>2016</u>
Payroll and Payroll Taxes	\$ 514,127	\$ 976,037
Other Accrued Expenses	<u>128,796</u>	<u>154,167</u>
Total	<u>\$ 642,923</u>	<u>\$ 1,130,204</u>

NOTE H - LONG-TERM OBLIGATIONS

Long-term obligations consist of the following at June 30:

	<u>2017</u>	<u>2016</u>
\$5,085,000 mortgage payable to a financial institution, bearing interest at one month LIBOR rate plus 2.75%, with monthly payments of \$35,918 including interest, final payment due October 1, 2023; collateralized by first mortgage on Ortiz land and building. SalusCare has entered an interest rate swap agreement for \$4.9 million on this obligation. The effective date of the swap was October 1, 2013. Fixed interest rate at June 30, 2017 was 5.85%.	\$ 4,216,542	\$ 4,471,706
\$5,025,000 Series 2007A Revenue Bonds payable to a financial institution, bearing variable interest at 6.37% of the one month LIBOR rate plus 1.17%, with monthly payments of \$16,265, including interest, final payment due February 2019; collateralized by the Evans Avenue Detox & Administration Facility real estate carried at \$5,930,863 at June 30, 2017. SalusCare has entered an interest rate swap agreement for \$4.25 million on this obligation. The effective date of the swap was February 1, 2009. Fixed Interest rate at June 30, 2017 was 4.5%.	3,909,292	4,025,996
\$998,400 Capital Advance Mortgage note, sponsored by HUD, requires no monthly mortgage payment as long as the project is in regulatory compliance; the note does not have an amount for any current portion. Any payment of principal or accrued interest requires prior approval of HUD; maturity date of the capital advance is March 23, 2033.	<u>998,400</u>	<u>998,400</u>
Total	9,124,234	9,496,102
Less: Current Portion	(393,091)	(371,868)
Less: Unamortized Issuance Costs	<u>(86,620)</u>	<u>(90,745)</u>
Total	<u>\$ 8,644,523</u>	<u>\$ 9,033,489</u>

NOTE H - LONG-TERM OBLIGATIONS, CONTINUED

Scheduled principal maturities of debt payable are approximately as follows:

Year Ending June 30	Amount
2018	\$ 393,091
2019	4,073,452
2020	303,986
2021	322,254
2022	341,619
Thereafter	<u>3,689,832</u>
Subtotal	9,124,234
Unamortized issuance costs	<u>(86,620)</u>
Total	<u><u>\$ 9,037,614</u></u>

Interest expense for the years ended June 30, 2017 and 2016, was \$435,326 and \$470,003, respectively.

SalusCare had available a \$1,000,000 revolving line of credit with Bank of America, N.A. at June 30, 2017. The line of credit has a current maturity date of May 1, 2018. Interest is charged at 2.75% in excess of the one-month LIBOR rate for the year ended June 30, 2017. The line is collateralized by all business assets of SalusCare, Inc. other than real estate and non-titled vehicles. As of June 30, 2017, there was no outstanding balance on this line of credit. Interest rate at June 30, 2017 was 3.97%.

The mortgage and line of credit agreements contain covenants pertaining to cash flow and debt coverage. SalusCare is required to maintain on a consolidated basis a Debt Coverage Ratio of at least 1.40 to 1.00 for the mortgage and the line of credit at all times during each fiscal year. In addition, SalusCare shall not report interim period year to date cash flow of less than \$0 on a consolidated basis. At June 30, 2017, SalusCare was in compliance with these covenants.

The bond purchase and construction financing agreement contains covenants pertaining to the maintenance of working capital and unrestricted net assets. SalusCare is required to maintain a Debt Coverage Ratio equal to or exceeding 1.40 to 1.00 at the end of each fiscal year. In addition, SalusCare must maintain unrestricted net assets of at least \$3,500,000 at all times. At June 30, 2017, SalusCare was in compliance with these covenants.

NOTE I - DERIVATIVE FINANCIAL INSTRUMENT

SalusCare holds two derivative financial instruments for the purpose of managing the risk associated with interest rates on its variable rate borrowing.

During the year ended June 30, 2014, SalusCare entered into a pay fixed interest rate swap agreement in connection with the mortgage payable. The original notional value of the agreement was \$4,866,691. The notional amount of the swap agreement was \$4,216,542 and \$4,471,706 at June 30, 2017 and 2016, respectively. The effective date of the swap agreement was October 1, 2014.

In addition, SWFAS originally entered an interest rate swap agreement in connection with the Series 2007A Revenue Bonds. The original notional amount of the swap was \$4,250,000 at February 1, 2009. The notional amount of the swap agreement was \$3,576,648 and \$3,671,484 at June 30, 2017 and 2016, respectively. The effective date of this agreement was February 1, 2009.

SalusCare uses fair value measurements to record the fair value adjustment of the derivative instrument. The fair value (liability) of these swap agreements total \$388,295 and \$808,210 for the years ended June 30, 2017 and 2016, respectively, and is reported in long-term liabilities in the consolidated statements of financial position. Changes in the fair value of derivatives are reported in the consolidated statements of activities. See Note F for more information on fair value measurements.

The fixed/float interest rate SWAP agreements outstanding at June 30, 2017 were as follows:

Notional Amount	Effective Date	Termination Date	Fixed Rate	Variable Rate
\$ 4,216,542	10/1/2014	10/2/2023	5.85%	LIBOR + 2.75%
\$ 3,576,648	2/1/2009	2/1/2019	4.50%	LIBOR + 1.17%

Credit risk

SalusCare is exposed to credit risk on the SWAP only when its fair value is positive. As of June 30, 2017, the SWAP had a negative (liability) fair value and the maximum amount of loss due to credit risk is zero.

SALUSCARE, INC.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
June 30, 2017 and 2016

NOTE I - DERIVATIVE FINANCIAL INSTRUMENT, CONTINUED

Termination risk

SalusCare or the counter party may terminate the SWAP, if the other party fails to perform under the terms of the contract. If the SWAP is terminated, and the SWAP has a negative fair value, the Association would be liable to the counter party for a payment equal to the SWAP's fair value.

NOTE J - NET ASSETS

Net asset components consist of the following at June 30:

	<u>2017</u>	<u>2016</u>
Unrestricted Net Assets:		
SalusCare, Inc.	\$ 14,688,279	\$ 14,433,772
LMHC Properties, Inc.	(600,870)	(581,662)
Total Unrestricted Net Assets	<u>14,087,409</u>	<u>13,852,110</u>
Temporarily Restricted Net Assets:		
Special Purpose Funds	605,809	583,477
Donated Land Lease	601,478	616,148
Other	<u>5,337</u>	<u>15,131</u>
Total Temporarily Restricted Net Assets	<u>1,212,624</u>	<u>1,214,756</u>
Permanently Restricted Net Assets:		
SalusCare, Inc.	<u>106,849</u>	<u>97,697</u>
Total Net Assets	<u><u>\$ 15,406,882</u></u>	<u><u>\$ 15,164,563</u></u>

NOTE K - PENSION PLAN

SalusCare offers its employees a defined contribution retirement plan (the "Plan") under Section 403(b) of the Internal Revenue Code which is available to substantially all of its employees after completion of 1,000 hours of qualified service in a twelve month period. The Plan has no minimum age requirement for participation but requires employees to attain a minimum age of 18 in order to receive matching and discretionary contributions. The employee enters the Plan on the first day of the month coincident with or following completion of the eligibility requirement of six months of service. The Plan is administered by a third party. All assets of the Plan are held by a third party trustee. Normal retirement age is 65 and five years of service.

Employer contributions, including administrative costs to the plan for the years ended June 30, 2017 and 2016 were \$495,614 and \$413,383, respectively.

NOTE K - PENSION PLAN, CONTINUED

Participants vest over a five year period of qualified service for non-elective contributions:

<u>Years of Service</u>	<u>% Vesting</u>
1	20%
2	40%
3	60%
4	80%
5	100%

NOTE L - COMMITMENTS AND CONTINGENCIES

SalusCare leases certain equipment, office space and two apartments under various noncancellable operating leases. The future minimum lease payments under these leases are as follows:

<u>Years Ending June 30</u>	<u>Amount</u>
2018	\$ 102,144
2019	102,144
2020	101,322
2021	1,500
Total	<u>\$ 307,110</u>

Rent expense was \$126,246 and \$146,812 for the years ended June 30, 2017 and 2016, respectively.

SalusCare receives grants and other reimbursements from state and local agencies subject to special compliance audit requirements. These audits have resulted in refunds in amounts that were not material in relation to the financial statements. Future audits may also result in disallowed expense amounts. Disallowed amounts, if any, constitute a contingent liability to SalusCare. Management does not believe any resulting contingent liabilities would be material to the financial position of SalusCare.

NOTE M - SUPPORT FROM THE STATE OF FLORIDA WHICH REQUIRES MATCH

During the years ended June 30, 2017 and 2016, SalusCare received support from the State of Florida, under grant contracts with the Department of Children and Families, Alcohol, Drug Abuse, and Mental Health Program. These contracts are

**NOTE M - SUPPORT FROM THE STATE OF FLORIDA WHICH REQUIRES MATCH,
CONTINUED**

renegotiated annually. The income from these contracts is earned by providing services to patients. The contracts required a local match of \$2,415,355 and \$2,282,511 for the years ended June 30, 2017 and 2016, respectively, for certain program services.

SalusCare incurred and funded allowable program costs in excess of the required match during the fiscal years ended June 30, 2017 and 2016.

NOTE N - SUPPORT FROM LEE COUNTY

Financial support of \$5,347,764 and \$6,128,037 was received from Lee County for the years ended June 30, 2017 and 2016, respectively, as part of its annual award to SalusCare.

NOTE O - CONFLICT OF INTEREST POLICY

The board of directors of SalusCare has adopted a conflict of interest policy. Every officer and director is required to disclose any potential conflicts of interest. Any officer or director with a potential conflict of interest is required to refrain from participating in any decision by the board of directors on any issue involving the potential conflict of interest. SalusCare, Inc. may, with proper notice and disclosure, from time to time do business with firms with who board of directors members or corporate officers are affiliated. Such business arrangements are to be made on an arm's length basis and on terms not less favorable to SalusCare than other transactions with unrelated parties.

Currently, management is not aware of any business relationships in effect that would constitute a conflict of interest with any officer or board member of SalusCare.

NOTE P - ENDOWMENT FUND

Many years ago SalusCare entered into an agreement with Southwest Florida Community Foundation (an unrelated organization) (the "Foundation") to create an endowment fund for the benefit of SalusCare (beneficial interest). The agreement called for a contribution by SalusCare to the Foundation that was matched by the Foundation.

NOTE P - ENDOWMENT FUND, CONTINUED

The endowment fund is recorded in the financial statements of SalusCare as a beneficial interest and included in investments and permanently restricted net assets since SalusCare does not have access to the assets.

The assets of this agreement are the property of the respective local Foundation in accordance with the terms of the agreement and are not available for distribution to SalusCare. The assets of the agreement are held for the benefit of SalusCare and the income from the fund is available to be distributed to SalusCare annually, subject to the approval of the individual Foundation. Annual income from the agreement has, historically, been reinvested by the Foundation at the direction of SalusCare. Once the annual income has been reinvested, it historically has then not been available for future distribution to SalusCare. The agreement also incurs investment management costs. The endowment fund agreement permits additional endowment gifts to be contributed. During the years ended June 30, 2017 and 2016, net investment gains (losses), net of investment management costs totaled \$9,152 and \$(3,163) respectively. The total endowment held by the foundations for the benefit of SalusCare at June 30, 2017 and 2016, was \$106,849 and \$97,697, respectively.

NOTE Q - UNITED WAY CONTRIBUTIONS

The Lee County United Way provided SalusCare, Inc. with grants of \$365,892 and \$370,892 for the years ended June 30, 2017 and 2016, respectively.

SUPPLEMENTARY INFORMATION

SALUSCARE, INC.
SCHEDULE OF REVENUES BY COST CENTER (UNAUDITED)
Year Ended June 30, 2017

	<u>Adult Crisis Stabilization Unit</u>		<u>Child Crisis Stabilization Unit</u>	
	<u>Crisis Stabilization</u>	<u>Incidentals</u>	<u>Crisis Stabilization</u>	<u>Detox</u>
STATE SAMH FUNDING				
SAMH	\$ 2,212,404	\$ 143,354	\$ 374,851	\$ 176,626
DCF	-	-	-	-
State IDP Credit	-	-	-	-
Total State SAMH Funding	<u>2,212,404</u>	<u>143,354</u>	<u>374,851</u>	<u>176,626</u>
OTHER GOVERNMENT FUNDING				
Other State Agency Funding	-	-	-	-
Medicaid	830,366	-	1,029,026	-
Local Government	670,794	-	293,000	-
Federal Grants and Contracts	-	-	-	-
Total Other Government Funding	<u>1,501,160</u>	<u>-</u>	<u>1,322,026</u>	<u>-</u>
ALL OTHER FUNDING AND REVENUE				
First and Second Party Payments	282,320	-	85,527	-
Third Party Payments (Except Medicare)	423,424	-	292,641	-
Medicare	121,663	-	-	-
Contributions and Donations	-	-	-	-
Other	110,000	-	4,700	-
In-Kind Revenue	-	-	-	-
Total Nongovernment Funding	<u>937,407</u>	<u>-</u>	<u>382,868</u>	<u>-</u>
Total All Funding and Revenue	<u>\$ 4,650,971</u>	<u>\$ 143,354</u>	<u>\$ 2,079,745</u>	<u>\$ 176,626</u>

<u>Adult Detox</u>		<u>Child Substance Abuse Residential</u>		
<u>Detox</u>	<u>Total</u>	<u>Res LII</u>	<u>Medical Services</u>	<u>Aftercare</u>
\$ 912,509	\$ 3,819,744	\$ 912,655	\$ 49,008	\$ 739
-	-	-	-	-
-	-	-	-	-
<u>912,509</u>	<u>3,819,744</u>	<u>912,655</u>	<u>49,008</u>	<u>739</u>
-	-	-	-	-
345,450	2,204,842	61,512	-	2,745
894,101	1,857,895	-	-	-
-	-	<u>53,822</u>	-	-
<u>1,239,551</u>	<u>4,062,737</u>	<u>115,334</u>	-	<u>2,745</u>
175,819	543,666	27,001	-	-
240,198	956,263	10,773	-	-
2,436	124,099	-	-	-
97,240	97,240	-	-	-
-	114,700	3,052	-	-
-	-	<u>500</u>	-	-
<u>515,693</u>	<u>1,835,968</u>	<u>41,326</u>	-	-
<u>\$ 2,667,753</u>	<u>\$ 9,718,449</u>	<u>\$ 1,069,315</u>	<u>\$ 49,008</u>	<u>\$ 3,484</u>

SALUSCARE, INC.
SCHEDULE OF REVENUES BY COST CENTER (UNAUDITED), CONTINUED
Year Ended June 30, 2017

	Adult Substance Abuse Residential			
	Case Management	Day/Night	Medical Services	Res L1
STATE SAMH FUNDING				
SAMH	\$ 106,457	\$ 12,591	\$ 67,378	\$ 1,211,752
DCF	-	-	-	-
State IDP Credit	-	-	-	-
Total State SAMH Funding	<u>106,457</u>	<u>12,591</u>	<u>67,378</u>	<u>1,211,752</u>
OTHER GOVERNMENT FUNDING				
Other State Agency Funding	-	-	-	-
Medicaid	-	-	-	33,200
Local Government	58,371	-	58,371	58,371
Federal Grants and Contracts	<u>46,554</u>	-	-	-
Total Other Government Funding	104,925	-	58,371	91,571
ALL OTHER FUNDING AND REVENUE				
First and Second Party Payments	-	312	-	27,171
Third Party Payments (Except Medicare)	-	-	-	16,405
Medicare	-	-	-	-
Contributions and Donations	-	19,760	-	-
Other	-	-	-	-
In-Kind Revenue	-	-	-	-
Total Nongovernment Funding	<u>-</u>	<u>20,072</u>	<u>-</u>	<u>43,576</u>
Total All Funding and Revenue	<u>\$ 211,382</u>	<u>\$ 32,663</u>	<u>\$ 125,749</u>	<u>\$ 1,346,899</u>

<u>Adult Substance Abuse Residential</u>				<u>Adult Community Services</u>	
<u>Res L4</u>	<u>Incidentals</u>	<u>Aftercare</u>	<u>Total</u>	<u>Case Management</u>	<u>Supported House/Living</u>
\$ 407,905	\$ 17,819	\$ 52,141	\$ 2,838,445	\$ 497,043	\$ 338,038
-	-	-	-	-	-
-	12,899	-	12,899	-	-
<u>407,905</u>	<u>30,718</u>	<u>52,141</u>	<u>2,851,344</u>	<u>497,043</u>	<u>338,038</u>
-	-	-	-	-	-
-	-	96	97,553	145,630	-
58,371	-	-	233,484	139,058	-
-	-	-	100,376	-	-
<u>58,371</u>	<u>-</u>	<u>96</u>	<u>431,413</u>	<u>284,688</u>	<u>-</u>
109,986	-	-	164,470	-	-
-	-	-	27,178	-	-
-	-	-	-	-	-
200	-	-	19,960	-	-
488	-	-	3,540	-	-
<u>21,600</u>	<u>-</u>	<u>-</u>	<u>22,100</u>	<u>-</u>	<u>-</u>
<u>132,274</u>	<u>-</u>	<u>-</u>	<u>237,248</u>	<u>-</u>	<u>-</u>
<u>\$ 598,550</u>	<u>\$ 30,718</u>	<u>\$ 52,237</u>	<u>\$ 3,520,005</u>	<u>\$ 781,731</u>	<u>\$ 338,038</u>

SALUSCARE, INC.
SCHEDULE OF REVENUES BY COST CENTER (UNAUDITED), CONTINUED
Year Ended June 30, 2017

	Adult Community Services			
	Incidentals	Supported Employment	Outreach	Forensic Case Management
STATE SAMH FUNDING				
SAMH	\$ 47,363	\$ 2,557	\$ 44,293	\$ 209,954
DCF	-	-	-	-
State IDP Credit	-	-	-	-
Total State SAMH Funding	<u>47,363</u>	<u>2,557</u>	<u>44,293</u>	<u>209,954</u>
OTHER GOVERNMENT FUNDING				
Other State Agency Funding	-	-	-	-
Medicaid	-	-	-	16,817
Local Government	-	-	-	119,293
Federal Grants and Contracts	-	-	-	-
Total Other Government Funding	<u>-</u>	<u>-</u>	<u>-</u>	<u>136,110</u>
ALL OTHER FUNDING AND REVENUE				
First and Second Party Payments	-	-	-	-
Third Party Payments (Except Medicare)	-	-	-	-
Medicare	-	-	-	-
Contributions and Donations	-	-	-	-
Other	-	-	-	-
In-Kind Revenue	-	-	-	-
Total Nongovernment Funding	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total All Funding and Revenue	<u>\$ 47,363</u>	<u>\$ 2,557</u>	<u>\$ 44,293</u>	<u>\$ 346,064</u>

Child Community Services				
Forensic SHL	Case Management	TBOS	CAT	Total
\$ 93,406	\$ 161,819	\$ 71,893	\$ -	\$ 1,466,366
-	-	-	618,451	618,451
-	-	-	-	-
<u>93,406</u>	<u>161,819</u>	<u>71,893</u>	<u>618,451</u>	<u>2,084,817</u>
-	-	-	-	-
-	466,335	101,520	126,718	857,020
72,667	99,119	31,227	-	461,364
-	-	-	-	-
<u>72,667</u>	<u>565,454</u>	<u>132,747</u>	<u>126,718</u>	<u>1,318,384</u>
-	5	992	5	1,002
-	19,137	4,336	5,271	28,744
-	-	-	-	-
-	-	-	-	-
-	600	-	-	600
-	-	-	-	-
<u>-</u>	<u>19,742</u>	<u>5,328</u>	<u>5,276</u>	<u>30,346</u>
<u>\$ 166,073</u>	<u>\$ 747,015</u>	<u>\$ 209,968</u>	<u>\$ 750,445</u>	<u>\$ 3,433,547</u>

SALUSCARE, INC.
SCHEDULE OF REVENUES BY COST CENTER (UNAUDITED), CONTINUED
Year Ended June 30, 2017

	Crisis/Support Emergency Program	Adult & Child Medical Services	Outpatient Therapy	Family Intensive Treatment Team (FITT)
STATE SAMH FUNDING				
SAMH	\$ 1,150,114	\$ 2,850,886	\$ -	\$ 559,893
DCF	-	-	-	-
State IDP Credit	-	62,638	-	-
Total State SAMH Funding	1,150,114	2,913,524	-	559,893
OTHER GOVERNMENT FUNDING				
Other State Agency Funding	-	-	-	-
Medicaid	2,680	1,251,543	683,085	-
Local Government	243,294	626,172	581,882	-
Federal Grants and Contracts	-	-	-	-
Total Other Government Funding	245,974	1,877,715	1,264,967	-
ALL OTHER FUNDING AND REVENUE				
First and Second Party Payments	2	412,496	388,345	-
Third Party Payments (Except Medicare)	(478)	160,142	146,029	-
Medicare	-	146,085	71,452	-
Contributions and Donations	-	-	236,392	-
Other	-	12,600	-	-
In-Kind Revenue	-	-	-	-
Total Nongovernment Funding	(476)	731,323	842,218	-
Total All Funding and Revenue	<u>\$ 1,395,612</u>	<u>\$ 5,522,562</u>	<u>\$ 2,107,185</u>	<u>\$ 559,893</u>

Total for State SAMH-Funded Cost Centers	Non-State Funded SAMH Cost Centers	Total for all State Designated SAMH Cost Centers	Non-SAMH Cost Centers	Direct Support Cost Centers	Administrative Cost Centers
\$ 12,685,448	\$ -	\$ 12,685,448	\$ -	\$ -	\$ -
618,451	-	618,451	-	-	-
<u>75,537</u>	<u>-</u>	<u>75,537</u>	<u>-</u>	<u>-</u>	<u>-</u>
13,379,436	-	13,379,436	-	-	-
-	-	-	-	-	-
5,096,723	-	5,096,723	-	-	-
4,004,091	1,117,077	5,121,168	53,076	173,523	-
<u>100,376</u>	<u>-</u>	<u>100,376</u>	<u>-</u>	<u>-</u>	<u>-</u>
9,201,190	1,117,077	10,318,267	53,076	173,523	-
1,509,981	71,585	1,581,566	18,252	-	-
1,317,878	-	1,317,878	-	-	-
341,636	-	341,636	-	-	-
353,592	-	353,592	12,500	-	33,211
131,440	-	131,440	297,348	-	521,496
<u>22,100</u>	<u>-</u>	<u>22,100</u>	<u>-</u>	<u>-</u>	<u>5,462</u>
<u>3,676,627</u>	<u>71,585</u>	<u>3,748,212</u>	<u>328,100</u>	<u>-</u>	<u>560,169</u>
<u>\$ 26,257,253</u>	<u>\$ 1,188,662</u>	<u>\$ 27,445,915</u>	<u>\$ 381,176</u>	<u>\$ 173,523</u>	<u>\$ 560,169</u>

SCHEDULE OF REVENUES BY COST CENTER (UNAUDITED), CONTINUED
Year Ended June 30, 2017

	Indirect Support	LMHC	Total
	<u>Cost Centers</u>	<u>Properties Inc.</u>	<u>Funding</u>
STATE SAMH FUNDING			
SAMH	\$ -	\$ -	\$ 12,685,448
DCF	-	-	618,451
State IDP Credit	-	-	75,537
Total State SAMH Funding	-	-	13,379,436
OTHER GOVERNMENT FUNDING			
Other State Agency Funding	-	-	-
Medicaid	-	-	5,096,723
Local Government	-	-	5,347,767
Federal Grants and Contracts	-	75,431	175,807
Total Other Government Funding	-	75,431	10,620,297
ALL OTHER FUNDING AND REVENUE			
First and Second Party Payments	-	-	1,599,818
Third Party Payments (Except Medicare)	-	-	1,317,878
Medicare	-	-	341,636
Contributions and Donations	-	-	399,303
Other	198,531	54,427	1,203,242
In-Kind Revenue	-	-	27,562
Total Nongovernment Funding	198,531	54,427	4,889,439
Total All Funding and Revenue	<u>\$ 198,531</u>	<u>\$ 129,858</u>	<u>\$ 28,889,172</u>

SALUSCARE, INC.
SCHEDULE OF EXPENSES BY COST CENTER (UNAUDITED)
Year Ended June 30, 2017

	<u>Adult Crisis Stabilization Unit</u>		<u>Child Crisis Stabilization Unit</u>	
	<u>Crisis</u>		<u>Crisis</u>	
	<u>Stabilization</u>	<u>Incidentals</u>	<u>Stabilization</u>	<u>Detox</u>
PERSONNEL EXPENSES				
Salaries	\$ 2,805,544	\$ -	\$ 574,964	\$ 360,510
Fringe Benefits	<u>561,971</u>	<u>-</u>	<u>125,839</u>	<u>84,155</u>
Total Personnel Expenses	3,367,515	-	700,803	444,665
OPERATING EXPENSES				
Building Occupancy	131,663	-	41,839	26,373
Professional Services	591,169	-	304,091	134,681
Travel	8,707	-	329	322
Equipment Costs	59,730	-	12,307	7,297
Food Services	70,816	-	13,102	13,067
Medicine and Pharmacy	84,696	143,354	38,035	16,421
Insurance	62,536	-	19,020	8,468
Interest Paid	-	-	-	-
Operating Supplies and Expenses	126,015	-	22,172	14,808
Bad Debt/Taxes	<u>193,207</u>	<u>-</u>	<u>58,101</u>	<u>24,901</u>
Total Operating Expenses	<u>1,328,539</u>	<u>143,354</u>	<u>508,996</u>	<u>246,338</u>
Total Direct Expenses	4,696,054	143,354	1,209,799	691,003
ALLOCATED EXPENSES				
Administration	<u>238,343</u>	<u>-</u>	<u>72,385</u>	<u>31,022</u>
Total Allocated Expenses	<u>238,343</u>	<u>-</u>	<u>72,385</u>	<u>31,022</u>
Total Expense	<u>4,934,397</u>	<u>143,354</u>	<u>1,282,184</u>	<u>722,025</u>
State Excluded Costs	<u>193,207</u>	<u>-</u>	<u>58,101</u>	<u>24,901</u>
Total Allowable Operating Expenses	<u>\$ 4,741,190</u>	<u>\$ 143,354</u>	<u>\$ 1,224,083</u>	<u>\$ 697,124</u>

<u>Adult Detox</u>		<u>Child Substance Abuse Residential</u>		
<u>Detox</u>	<u>Total</u>	<u>Res LII</u>	<u>Medical Services</u>	<u>Aftercare</u>
\$ 1,507,013	\$ 5,248,031	\$ 614,352	\$ 27,001	\$ 2,016
<u>327,099</u>	<u>1,099,064</u>	<u>165,151</u>	<u>7,020</u>	<u>504</u>
1,834,112	6,347,095	779,503	34,021	2,520
186,656	386,531	168,409	-	-
46,435	1,076,376	35,794	7,812	-
1,685	11,043	3,281	-	-
41,824	121,158	18,621	-	-
69,931	166,916	67,356	-	-
62,692	345,198	11,692	-	-
44,304	134,328	24,442	-	-
-	-	-	-	-
56,583	219,578	33,055	-	-
<u>101,066</u>	<u>377,275</u>	<u>22,652</u>	<u>-</u>	<u>-</u>
<u>611,176</u>	<u>2,838,403</u>	<u>385,302</u>	<u>7,812</u>	<u>-</u>
2,445,288	9,185,498	1,164,805	41,833	2,520
<u>138,685</u>	<u>480,435</u>	<u>57,546</u>	<u>-</u>	<u>-</u>
<u>138,685</u>	<u>480,435</u>	<u>57,546</u>	<u>-</u>	<u>-</u>
<u>2,583,973</u>	<u>9,665,933</u>	<u>1,222,351</u>	<u>41,833</u>	<u>2,520</u>
<u>101,066</u>	<u>377,275</u>	<u>22,652</u>	<u>-</u>	<u>-</u>
<u>\$ 2,482,907</u>	<u>\$ 9,288,658</u>	<u>\$ 1,199,699</u>	<u>\$ 41,833</u>	<u>\$ 2,520</u>

SALUSCARE, INC.
SCHEDULE OF EXPENSES BY COST CENTER (UNAUDITED), CONTINUED
Year Ended June 30, 2017

	Adult Substance Abuse Residential			
	Case Management	Day/Night	Medical Services	Res L1
PERSONNEL EXPENSES				
Salaries	\$ 99,933	\$ 22,520	\$ 30,000	\$ 452,699
Fringe Benefits	<u>23,984</u>	<u>5,871</u>	<u>8,700</u>	<u>120,599</u>
Total Personnel Expenses	123,917	28,391	38,700	573,298
OPERATING EXPENSES				
Building Occupancy	9,739	52	-	211,362
Professional Services	-	(1,593)	17,858	86,920
Travel	3,362	36	-	4,393
Equipment Costs	6,971	403	-	27,494
Food Services	-	1,412	-	36,114
Medicine and Pharmacy	-	24	-	11,630
Insurance	10,967	33	-	26,245
Interest Paid	-	-	-	-
Operating Supplies and Expenses	2,623	1,423	-	44,974
Bad Debt/Taxes	<u>-</u>	<u>1,156</u>	<u>-</u>	<u>3,370</u>
Total Operating Expenses	<u>33,662</u>	<u>2,946</u>	<u>17,858</u>	<u>452,502</u>
Total Direct Expenses	157,579	31,337	56,558	1,025,800
ALLOCATED EXPENSES				
Administration	<u>3,517</u>	<u>2,646</u>	<u>-</u>	<u>102,327</u>
Total Allocated Expenses	<u>3,517</u>	<u>2,646</u>	<u>-</u>	<u>102,327</u>
Total Expense	<u>161,096</u>	<u>33,983</u>	<u>56,558</u>	<u>1,128,127</u>
State Excluded Costs	<u>-</u>	<u>1,156</u>	<u>-</u>	<u>3,370</u>
Total Allowable Operating Expenses	<u>\$ 161,096</u>	<u>\$ 32,827</u>	<u>\$ 56,558</u>	<u>\$ 1,124,757</u>

Adult Substance Abuse Residential				Adult Community Services	
Res L4	Incidentals	Aftercare	Total	Case Management	Supported House/Living
\$ 357,939	\$ -	\$ 22,246	\$ 1,628,706	\$ 623,918	\$ 216,587
<u>106,887</u>	<u>-</u>	<u>5,339</u>	<u>444,055</u>	<u>173,955</u>	<u>55,763</u>
464,826	-	27,585	2,072,761	797,873	272,350
89,672	-	-	479,234	18,735	6,346
15,732	-	-	162,523	5,948	3,899
8,842	-	-	19,914	15,993	7,725
21,827	-	-	75,316	32,470	18,007
71,899	-	-	176,781	2	1
24,488	-	-	47,834	643	153
16,078	-	-	77,765	14,458	5,463
-	-	-	-	-	-
14,261	30,718	-	127,054	47,333	24,007
<u>6,891</u>	<u>-</u>	<u>-</u>	<u>34,069</u>	<u>(4,427)</u>	<u>-</u>
<u>269,690</u>	<u>30,718</u>	<u>-</u>	<u>1,200,490</u>	<u>131,155</u>	<u>65,601</u>
734,516	30,718	27,585	3,273,251	929,028	337,951
<u>26,447</u>	<u>-</u>	<u>-</u>	<u>192,483</u>	<u>127,881</u>	<u>73,201</u>
<u>26,447</u>	<u>-</u>	<u>-</u>	<u>192,483</u>	<u>127,881</u>	<u>73,201</u>
<u>760,963</u>	<u>30,718</u>	<u>27,585</u>	<u>3,465,734</u>	<u>1,056,909</u>	<u>411,152</u>
<u>6,891</u>	<u>-</u>	<u>-</u>	<u>34,069</u>	<u>(4,427)</u>	<u>-</u>
<u>\$ 754,072</u>	<u>\$ 30,718</u>	<u>\$ 27,585</u>	<u>\$ 3,431,665</u>	<u>\$ 1,061,336</u>	<u>\$ 411,152</u>

SALUSCARE, INC.
SCHEDULE OF EXPENSES BY COST CENTER (UNAUDITED), CONTINUED
Year Ended June 30, 2017

	Adult Community Services			
	Incidentals	Supported Employment	Outreach	Forensic Case Management
PERSONNEL EXPENSES				
Salaries	\$ -	\$ 1,530	\$ 31,616	\$ 215,314
Fringe Benefits	-	444	7,588	57,335
Total Personnel Expenses	-	1,974	39,204	272,649
OPERATING EXPENSES				
Building Occupancy	-	-	-	15,069
Professional Services	-	-	-	4,241
Travel	47,363	-	-	19,831
Equipment Costs	-	-	-	12,767
Food Services	-	-	-	1
Medicine and Pharmacy	-	-	-	131
Insurance	-	-	-	7,681
Interest Paid	-	-	-	-
Operating Supplies and Expenses	-	-	-	14,648
Bad Debt/Taxes	-	-	-	248
Total Operating Expenses	47,363	-	-	74,617
Total Direct Expenses	47,363	1,974	39,204	347,266
ALLOCATED EXPENSES				
Administration	-	-	-	56,885
Total Allocated Expenses	-	-	-	56,885
Total Expense	47,363	1,974	39,204	404,151
State Excluded Costs	-	-	-	248
Total Allowable Operating Expenses	\$ 47,363	\$ 1,974	\$ 39,204	\$ 403,903

Child Community Services				
Forensic SHL	Case Management	TBOS	CAT	Total
\$ 90,776	\$ 410,328	\$ 147,092	\$ 524,332	\$ 2,261,493
<u>20,638</u>	<u>126,793</u>	<u>41,542</u>	<u>125,075</u>	<u>609,133</u>
111,414	537,121	188,634	649,407	2,870,626
10,632	13,646	11,134	15,322	90,884
1,638	7,118	1,970	5,432	30,246
3,543	17,891	8,661	22,446	143,453
5,869	23,740	8,376	26,395	127,624
-	1	-	2	7
44	197	45	9,988	11,201
2,802	9,162	3,761	9,210	52,537
-	-	-	-	-
5,805	28,528	17,900	27,426	165,647
<u>-</u>	<u>11,071</u>	<u>3,531</u>	<u>2,341</u>	<u>12,764</u>
<u>30,333</u>	<u>111,354</u>	<u>55,378</u>	<u>118,562</u>	<u>634,363</u>
141,747	648,475	244,012	767,969	3,504,989
<u>22,930</u>	<u>95,690</u>	<u>28,663</u>	<u>115,975</u>	<u>521,225</u>
<u>22,930</u>	<u>95,690</u>	<u>28,663</u>	<u>115,975</u>	<u>521,225</u>
<u>164,677</u>	<u>744,165</u>	<u>272,675</u>	<u>883,944</u>	<u>4,026,214</u>
<u>-</u>	<u>11,071</u>	<u>3,531</u>	<u>2,341</u>	<u>12,764</u>
<u>\$ 164,677</u>	<u>\$ 733,094</u>	<u>\$ 269,144</u>	<u>\$ 881,603</u>	<u>\$ 4,013,450</u>

SALUSCARE, INC.
SCHEDULE OF EXPENSES BY COST CENTER (UNAUDITED), CONTINUED
Year Ended June 30, 2017

	Crisis/Support Emergency Program	Adult & Child Medical Services	Outpatient Therapy	Family Intensive Treatment Team (FITT)
PERSONNEL EXPENSES				
Salaries	\$ 874,734	\$ 3,059,313	\$ 1,113,720	\$ 258,481
Fringe Benefits	<u>236,900</u>	<u>569,567</u>	<u>306,995</u>	<u>83,882</u>
Total Personnel Expenses	1,111,634	3,628,880	1,420,715	342,363
OPERATING EXPENSES				
Building Occupancy	28,814	75,498	75,953	19,937
Professional Services	8,704	380,221	40,912	68,813
Travel	850	15,435	16,039	38,125
Equipment Costs	34,596	150,376	55,072	14,021
Food Services	8,957	12	(702)	1
Medicine and Pharmacy	12,130	43,370	46,884	13,012
Insurance	13,035	62,282	35,414	7,502
Interest Paid	-	-	-	-
Operating Supplies and Expenses	33,226	120,659	73,540	22,390
Bad Debt/Taxes	<u>39</u>	<u>326,941</u>	<u>158,351</u>	<u>-</u>
Total Operating Expenses	<u>140,351</u>	<u>1,174,794</u>	<u>501,463</u>	<u>183,801</u>
Total Direct Expenses	1,251,985	4,803,674	1,922,178	526,164
ALLOCATED EXPENSES				
Administration	<u>169,111</u>	<u>269,432</u>	<u>287,291</u>	<u>70,334</u>
Total Allocated Expenses	<u>169,111</u>	<u>269,432</u>	<u>287,291</u>	<u>70,334</u>
Total Expense	<u>1,421,096</u>	<u>5,073,106</u>	<u>2,209,469</u>	<u>596,498</u>
State Excluded Costs	<u>39</u>	<u>326,941</u>	<u>158,351</u>	<u>-</u>
Total Allowable Operating Expenses	<u>\$ 1,421,057</u>	<u>\$ 4,746,165</u>	<u>\$ 2,051,118</u>	<u>\$ 596,498</u>

Total for State SAMH-Funded Cost Centers	Non-State Funded SAMH Cost Centers	Total for all State Designated SAMH Cost Centers	Non-SAMH Cost Centers	Direct Support Cost Centers	Administrative Cost Centers
\$ 14,444,478	\$ 633,662	\$ 15,078,140	\$ 250,429	\$ 21,648	\$ 1,030,819
<u>3,349,596</u>	<u>179,939</u>	<u>3,529,535</u>	<u>61,437</u>	<u>7,339</u>	<u>267,563</u>
17,794,074	813,601	18,607,675	311,866	28,987	1,298,382
1,156,851	25,745	1,182,596	89,170	166,066	22,179
1,767,795	27,855	1,795,650	70,561	28,060	233,530
244,859	3,771	248,630	3,366	312	8,893
578,163	34,543	612,706	15,710	6,649	14,034
351,972	2	351,974	1	-	3,427
519,629	111,652	631,281	96	7	2,917
382,863	13,184	396,047	11,848	11,371	1,242
-	-	-	-	-	435,326
762,094	40,880	802,974	27,532	8,882	184,911
<u>909,439</u>	<u>19,472</u>	<u>928,911</u>	<u>572</u>	<u>-</u>	<u>-</u>
<u>6,673,665</u>	<u>277,104</u>	<u>6,950,769</u>	<u>218,856</u>	<u>221,347</u>	<u>906,459</u>
24,467,739	1,090,705	25,558,444	530,722	250,334	2,204,841
1,990,311	164,921	2,155,232	49,610	-	(2,204,842)
<u>1,990,311</u>	<u>164,921</u>	<u>2,155,232</u>	<u>49,610</u>	<u>-</u>	<u>(2,204,842)</u>
<u>26,458,050</u>	<u>1,255,626</u>	<u>27,713,676</u>	<u>580,332</u>	<u>250,333</u>	<u>-</u>
<u>909,439</u>	<u>19,472</u>	<u>928,911</u>	<u>572</u>	<u>-</u>	<u>-</u>
<u>\$ 25,548,611</u>	<u>\$ 1,236,154</u>	<u>\$ 26,784,765</u>	<u>\$ 579,760</u>	<u>\$ 250,333</u>	<u>\$ -</u>

SCHEDULE OF EXPENSES BY COST CENTER (UNAUDITED), CONTINUED

Year Ended June 30, 2017

	Indirect Support <u>Cost Centers</u>	LMHC <u>Properties Inc.</u>	<u>Total</u>
PERSONNEL EXPENSES			
Salaries	\$ -	\$ 16,043	\$ 16,397,079
Fringe Benefits	<u>-</u>	<u>-</u>	<u>3,865,874</u>
Total Personnel Expenses	-	16,043	20,262,953
OPERATING EXPENSES			
Building Occupancy	-	68,478	1,528,489
Professional Services	-	21,622	2,149,423
Travel	-	-	261,201
Equipment Costs	-	-	649,099
Food Services	-	-	355,402
Medicine and Pharmacy	-	-	634,301
Insurance	-	13,278	433,786
Interest Paid	-	-	435,326
Operating Supplies and Expenses	-	24,287	1,048,586
Bad Debt/Taxes	<u>-</u>	<u>606</u>	<u>930,089</u>
Total Operating Expenses	<u>-</u>	<u>128,271</u>	<u>8,425,702</u>
Total Direct Expenses	<u>-</u>	<u>144,314</u>	<u>28,688,655</u>
ALLOCATED EXPENSES			
Administration	<u>-</u>	<u>-</u>	<u>-</u>
Total Allocated Expenses	<u>-</u>	<u>-</u>	<u>-</u>
Total Expense	-	144,314	28,688,655
State Excluded Costs	<u>-</u>	<u>606</u>	<u>930,089</u>
Total Allowable Operating Expenses	<u>\$ -</u>	<u>\$ 143,708</u>	<u>\$ 27,758,566</u>

SALUSCARE, INC.
SCHEDULE OF STATE EARNINGS (UNAUDITED)
Year Ended June 30, 2017

	<u>Amount</u>
1. Total Expenditures	\$ 28,688,655
2. Less Other State and Federal Funds	(6,696,541)
3. Less Non-Match SAMH Funds	(5,300,919)
4. Less Unallowable Costs per 65E-14, F.A.C.	<u>(930,089)</u>
5. Total Allowable Expenditures (Sum of lines 1, 2, 3 and 4)	<u>\$ 15,761,106</u>
6. Maximum Available Earnings (line 5 time 75%)	\$ 11,820,830
7. Amount of State Funds Requiring Match	<u>7,246,065</u>
8. Amount Due to Department (If Negative) (Subtract line 7 from line 6)	<u>\$ 4,574,765</u>

SALUSCARE, INC.
SCHEDULE OF BED DAY AVAILABILITY PAYMENTS - (UNAUDITED)
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 by Third Party Contracts, Local Government, or Other State Agencies (E)
AMH	CSU	391.24	10,950	2,205
ASA	Res Lvl 1	254.25	5,561	811
ASA	Res Lvl 4	64.44	8,711	302
ASA	Detox	294.57	10,585	3,653
CMH	CSU	391.24	2,291	476
CSA	JARF	294.57	2,089	434
CSA	Res Lvl 2	182.98	5,772	139

Maximum Number of Units Eligible for Payment by Department (F)	Amount Paid for Services by the Department (G)	Maximum Dollar Value of Units in Column F (H)	Amount Owed to Department (G less H or \$0 - Whichever is Greater) (I)
8,745	\$ 2,253,486	3,421,394	\$ -
4,750	1,186,380	1,207,688	-
8,409	474,835	541,876	-
6,932	912,509	2,041,959	-
1,815	374,851	710,101	-
1,655	257,366	487,513	-
5,633	824,942	1,030,726	-
Total Amount Owed Department			\$ <u><u>-</u></u>

SALUSCARE, INC.
SCHEDULE OF RELATED PARTY TRANSACTION ADJUSTMENTS
(UNAUDITED)
June 30, 2017

	Related Entities	Adult Crisis Stabilization	Children's Crisis Stabilization	Total	Adult Mental Health
Revenues from Grantee:					
Rent	\$ -	\$ -	\$ -	\$ -	\$ -
Total Revenue from Grantee	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Expenses Associated with Grantee Transactions					
Depreciation	\$ -	\$ -	\$ -	\$ -	\$ -
Interest	-	-	-	-	-
Professional Services	-	-	-	-	-
Total Associated Expenses	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Related Party Transactions Adjustment	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

	Comprehensive Community Service Team				
	Adult Case Management	Independent Living Team	Supported Housing/ Employment	Forensic Case Management	Child Case Management
Revenues from Grantee:					
Rent	\$ -	\$ -	\$ -	\$ -	\$ -
Total Revenue from Grantee	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Expenses Associated with Grantee Transactions					
Depreciation	\$ -	\$ -	\$ -	\$ -	\$ -
Interest	-	-	-	-	-
Professional Services	-	-	-	-	-
Total Associated Expenses	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Related Party Transactions Adjustment	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

There were no related party transaction adjustments for the year ended June 30, 2017.

SCHEDULE OF RELATED PARTY TRANSACTION ADJUSTMENTS

(UNAUDITED), CONTINUED

June 30, 2017

	Direct Support Cost Centers	Administrative Cost Centers	Indirect Support Cost Centers	LMHC Properties, Inc.	Total Funding
Revenues from Grantee:					
Rent	\$ -	\$ -	\$ -	\$ -	\$ -
Total Revenue from Grantee	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Expenses Associated with Grantee Transactions					
Depreciation	\$ -	\$ -	\$ -	\$ -	\$ -
Interest	-	-	-	-	-
Professional Services	-	-	-	-	-
Total Associated Expenses	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Related Party Transactions Adjustment	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

There were no related party transaction adjustments for the year ended June 30, 2017.

SALUSCARE, INC.
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
AND STATE FINANCIAL ASSISTANCE
Year Ended June 30, 2017

Federal or State Agency & Office/Pass Through Grantor/Program Title	CFDA/CSFA	Pass-Through or Grant Contract Number
<u>U.S. Department of Health and Human Services</u>		
Passed through Central Florida Behavioral Network		
MAJOR (Type A)		
Block Grants for Prevention and Treatment of Substance Abuse	93.959	QB023-016
NON MAJOR (Type B)		
Block Grants for Community Mental Health Services	93.958	QB023
Temporary Assistance for Needy Families	93.558	QB023
Projects for Assistance in Transition from Homelessness (PATH)	93.150	QB023
Total programs - U.S. Department of Health and Human Services		
<u>U.S. Department of Agriculture</u>		
Passed through State of Florida Department of Education		
NON MAJOR (Type B)		
Supplemental Nutrition Assistance Program	10.551	None
National School Lunch Program	10.555	None
<u>U.S. Department of Housing and Urban Development</u>		
Passed through Lee County		
NON MAJOR (Type B)		
Supportive Housing Program - Chrysalis	14.267	7245
Supportive Housing Program - Chrysalis	14.267	7582
Supportive Housing Program - Fresh Start I	14.267	7246
Supportive Housing Program - Fresh Start II	14.267	7501
Supportive Housing Program - Fresh Start II	14.267	7742
Supportive Housing Program Rental Assistance Program	14.267	7494
Emergency Solutions Grant Program - Operations Cost	14.231	7244
Emergency Solutions Grant Program - Triage Low Demand Shelter	14.231	7517
Emergency Solutions Grant Program - Triage Low Demand Shelter	14.231	7694
Total programs - U.S. Department of Housing and Urban Development		
<u>U.S. Department of Veteran Affairs</u>		
NON MAJOR		
VA Homeless Providers Grant and Per Diem Program	64.024	10-126-FL
TOTAL FEDERAL AWARDS		

Program or Award Amount	Revenue		Expenditures	Pass-Through to Subrecipients
\$ 2,294,809	\$ 2,294,809		\$ 2,294,809	\$ -
739,070	739,070		739,070	-
71,075	71,075		71,075	-
<u>70,649</u>	<u>70,649</u>		<u>70,649</u>	<u>-</u>
<u>3,175,603</u>	<u>3,175,603</u>	(A),(B), (1)	<u>3,175,603</u>	<u>-</u>
N/A	26,698		26,698	-
N/A	<u>27,124</u>	(2)	<u>27,124</u>	<u>-</u>
	<u>53,822</u>		<u>53,822</u>	<u>-</u>
27,270	11,404		11,404	-
27,587	18,643	(3)	18,643	-
87,481	16,773		16,773	-
121,824	84,914		84,914	-
121,824	87,287	(4)	87,287	-
<u>99,660</u>	<u>53,076</u>		<u>53,076</u>	<u>-</u>
485,646	272,097		272,097	-
123,616	22,984		22,984	-
53,665	53,665		53,665	-
<u>137,050</u>	<u>32,648</u>	(5)	<u>32,648</u>	<u>-</u>
<u>314,331</u>	<u>109,297</u>		<u>109,297</u>	<u>-</u>
<u>799,977</u>	<u>381,394</u>		<u>381,394</u>	<u>-</u>
<u>46,554</u>	<u>46,554</u>	(6)	<u>46,554</u>	<u>-</u>
<u>\$ 4,022,134</u>	<u>\$ 3,657,373</u>		<u>\$ 3,657,373</u>	<u>\$ -</u>

SALUSCARE, INC.
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
AND STATE FINANCIAL ASSISTANCE, CONTINUED
Year Ended June 30, 2017

Federal or State Agency & Office/Pass Through Grantor/Program Title	CFDA/CSFA	Pass-Through or Grant Contract Number
<u>State of Florida, Department of Children and Families</u>		
Passed through Central Florida Behavioral Network		
MAJOR (Type A)		
Community Action Team	60.150	QH7CF
NON MAJOR (Type B)		
Community Forensic Beds and Competency Restoration Training	60.114	QB023
<u>State of Florida, Department of Corrections</u>		
NON MAJOR (Type B)		
Substance Abuse Services	70.016	C2772

TOTAL STATE AWARDS

- (A) Represents funds expended under the program. Financial penalties in the amount of \$128,125 were deducted from total grant proceeds
- (B) Does not include match of \$9,302,374
- (1) includes AR of \$1,207,939 for grant and matching funds
- (2) includes AR of \$2,058
- (3) includes AR of \$2,861
- (4) includes AR of \$35,021
- (5) includes AR of \$15,174
- (6) includes AR of \$1,710
- (7) includes AR of \$62,500
- (8) includes AR of \$5,048

<u>Program or Award Amount</u>	<u>Revenue</u>	<u>Expenditures</u>	<u>Pass-Through to Subrecipients</u>
\$ 750,000	\$ 750,000 (7)	\$ 750,000	\$ -
<u>205,609</u>	<u>205,609</u>	<u>205,609</u>	<u>-</u>
955,609	955,609	955,609	-
<u>17,154</u>	<u>16,808 (8)</u>	<u>16,808</u>	<u>-</u>
<u><u>\$ 972,763</u></u>	<u><u>\$ 972,417</u></u>	<u><u>\$ 972,417</u></u>	<u><u>\$ -</u></u>

**NOTES TO THE SCHEDULE OF EXPENDITURES OF
FEDERAL AWARDS AND STATE FINANCIAL ASSISTANCE
Year Ended June 30, 2017**

NOTE A - BASIS OF PRESENTATION

The accompanying schedule of expenditures of federal awards and state financial assistance (the Schedule) includes the federal and state award activity of SalusCare, Inc. under the programs of the federal and state governments for the year ended June 30, 2017. The information in this Schedule is presented in accordance with the requirements of 2 CFR Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance) and in accordance with Florida Statute Chapter 215.97 and Chapter 10.650, Rules of the Auditor General. Because the Schedule presents only a selected portion of the operations of SalusCare, Inc., it is not intended to and does not present the financial position, changes in net assets, or cash flows of SalusCare, Inc.

NOTE B - SUMMARY OF SIGNIFICANT ACCOUNTING

The accompanying Schedule includes the federal and state grant activity of SalusCare only (excluding certain operations as noted below).

SalusCare's consolidated financial statements include the operations of SalusCare's controlled housing corporation, LMHC Properties, Inc., which expended \$1,073,831 in federal awards that are not included in the Schedule of Expenditures of Federal Awards and State Financial Assistance for the year ended June 30, 2017. Our audit did not include the operations of the SalusCare's controlled housing corporations because the U.S. Department of Housing and Urban Development requires separate single audits to be performed on these entities in accordance with the Uniform Guidance.

Basis of Accounting

Expenditures reported on the Schedule are reported on the accrual basis of accounting. Such expenditures are recognized following the cost principles contained in the Uniform Guidance and the State Single Audit Act, wherein certain types of expenditures are not allowable or are limited as to reimbursement. Negative amounts shown on the Schedule represent adjustments or credits made in the normal course of business to amounts reported as expenditures in prior years.

**NOTES TO THE SCHEDULE OF EXPENDITURES OF
FEDERAL AWARDS AND STATE FINANCIAL ASSISTANCE
Year Ended June 30, 2017**

NOTE B - SUMMARY OF SIGNIFICANT ACCOUNTING, CONTINUED

Indirect Costs

SalusCare, Inc. has not elected to use the 10-percent de minimis indirect cost rate as allowed under the Uniform Guidance.

Subrecipients

During the year ended June 30, 2017, there were no funds passed through to subrecipients.

SALUSCARE, INC.
CONSOLIDATING SCHEDULE OF FINANCIAL POSITION
June 30, 2017

	SalusCare, Inc.	LMHC Properties, Inc.	Eliminations	Totals
ASSETS				
CURRENT ASSETS				
Cash and cash equivalents, (including restricted cash of \$627,023)	\$ 4,642,067	\$ 19,545	\$ -	\$ 4,661,612
Contracts receivable, net	2,303,221	-	-	2,303,221
Accounts receivable, net	1,117,043	1,089	(228,930)	889,202
Contributions receivable	14,670	-	-	14,670
Prepays and inventory	372,299	400	-	372,699
TOTAL CURRENT ASSETS	8,449,300	21,034	(228,930)	8,241,404
CONTRIBUTIONS RECEIVABLE, NET	586,808	-	-	586,808
INVESTMENTS	173,656	-	-	173,656
PROPERTY AND EQUIPMENT, NET	16,863,754	627,935	-	17,491,689
OTHER ASSETS	6,351	2,135	-	8,486
TOTAL ASSETS	<u>\$ 26,079,869</u>	<u>\$ 651,104</u>	<u>\$ (228,930)</u>	<u>\$ 26,502,043</u>
LIABILITIES AND NET ASSETS				
CURRENT LIABILITIES				
Accounts payable	\$ 899,188	\$ 252,536	\$ (228,930)	\$ 922,794
Unearned (deferred) revenue	102,497	1,038	-	103,535
Accrued expenses	642,923	-	-	642,923
Current portion of long-term debt	393,091	-	-	393,091
TOTAL CURRENT LIABILITIES	2,037,699	253,574	(228,930)	2,062,343
LONG-TERM LIABILITIES				
Long-term debt, net	7,646,123	998,400	-	8,644,523
Derivative financial instruments	388,295	-	-	388,295
Compensated absences	-	-	-	-
TOTAL LONG-TERM LIABILITIES	8,034,418	998,400	-	9,032,818
TOTAL LIABILITIES	10,072,117	1,251,974	(228,930)	11,095,161
NET ASSETS				
Unrestricted (Deficit)	14,688,279	(600,870)	-	14,087,409
Temporarily restricted	1,212,624	-	-	1,212,624
Permanently restricted	106,849	-	-	106,849
TOTAL NET ASSETS	16,007,752	(600,870)	-	15,406,882
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 26,079,869</u>	<u>\$ 651,104</u>	<u>\$ (228,930)</u>	<u>\$ 26,502,043</u>

The accompanying notes are an integral part of this statement.

SALUSCARE, INC.
CONSOLIDATING SCHEDULE OF FINANCIAL POSITION
June 30, 2016

	SalusCare, Inc.	LMHC Properties, Inc.	Eliminations	Totals
ASSETS				
CURRENT ASSETS				
Cash and cash equivalents (including restricted cash of \$611,821)	\$ 5,057,480	\$ 17,677	\$ -	\$ 5,075,157
Contracts receivable, net	2,300,175	-	-	2,300,175
Accounts receivable, net	1,149,049	2,978	(226,257)	925,770
Contributions receivable	14,670	-	-	14,670
Other current assets	233,523	400	-	233,923
TOTAL CURRENT ASSETS	8,754,897	21,055	(226,257)	8,549,695
CONTRIBUTIONS RECEIVABLE, NET	601,478	-	-	601,478
INVESTMENTS	146,130	-	-	146,130
PROPERTY AND EQUIPMENT, NET	17,779,522	651,116	-	18,430,638
OTHER ASSETS	31,762	2,135	-	33,897
TOTAL ASSETS	<u>\$ 27,313,789</u>	<u>\$ 674,306</u>	<u>\$ (226,257)</u>	<u>\$ 27,761,838</u>
LIABILITIES AND NET ASSETS				
CURRENT LIABILITIES				
Accounts payable	\$ 1,190,238	\$ 255,266	\$ (226,257)	\$ 1,219,247
Unearned (deferred) revenue	30,416	2,302	-	32,718
Accrued expenses	1,130,204	-	-	1,130,204
Current portion of long-term debt	371,868	-	-	371,868
TOTAL CURRENT LIABILITIES	2,722,726	257,568	(226,257)	2,754,037
LONG-TERM LIABILITIES				
Long-term debt, net	8,035,089	998,400	-	9,033,489
Derivative financial instruments	808,210	-	-	808,210
Compensated absences	1,539	-	-	1,539
TOTAL LONG-TERM LIABILITIES	8,844,838	998,400	-	9,843,238
TOTAL LIABILITIES	11,567,564	1,255,968	(226,257)	12,597,275
NET ASSETS				
Unrestricted	14,433,772	(581,662)	-	13,852,110
Temporarily restricted	1,214,756	-	-	1,214,756
Permanently restricted	97,697	-	-	97,697
TOTAL NET ASSETS	15,746,225	(581,662)	-	15,164,563
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 27,313,789</u>	<u>\$ 674,306</u>	<u>\$ (226,257)</u>	<u>\$ 27,761,838</u>

The accompanying notes are an integral part of this statement.

SALUSCARE, INC.
CONSOLIDATING SCHEDULE OF ACTIVITIES
Year ended June 30, 2017

	SalusCare, Inc.	LMHC Properties, Inc.	Eliminations	Totals
UNRESTRICTED NET ASSETS				
SUPPORT AND REVENUE				
Support:				
State grants	\$ 13,320,705	\$ -	\$ -	\$ 13,320,705
Other governmental	5,448,140	-	-	5,448,140
Contributions and in-kind revenue	502,402	-	-	502,402
TOTAL SUPPORT	19,271,247	-	-	19,271,247
Revenue:				
Net client fee revenue	8,339,251	-	-	8,339,251
Interest income	26,385	10	-	26,395
Unrealized gain/loss on derivative/investment	438,593	-	-	438,593
Other income	688,590	129,848	(4,752)	813,686
TOTAL REVENUE	9,492,819	129,858	(4,752)	9,617,925
Net assets released from restrictions:				
Satisfaction of program restrictions	34,782	-	-	34,782
TOTAL UNRESTRICTED SUPPORT AND REVENUE	28,798,848	129,858	(4,752)	28,923,954
Expenses and losses:				
Program Services:				
Adult mental health	13,243,822	-	-	13,243,822
Children's mental health	3,418,754	-	-	3,418,754
Children and family services	1,480,441	-	-	1,480,441
Adult substance abuse	6,289,261	-	-	6,289,261
Children's substance abuse	1,531,839	-	-	1,531,839
Other support services	2,580,224	-	-	2,580,224
TOTAL PROGRAM SERVICES	28,544,341	-	-	28,544,341
Support services:				
Real estate holding company	-	149,066	(4,752)	144,314
TOTAL SUPPORT SERVICES	-	149,066	(4,752)	144,314
TOTAL UNRESTRICTED EXPENSES	28,544,341	149,066	(4,752)	28,688,655
INCREASE (DECREASE) IN UNRESTRICTED NET ASSETS	254,507	(19,208)	-	235,299
TEMPORARILY RESTRICTED NET ASSETS				
Contributions	32,650	-	-	32,650
Net assets released from restrictions:				
Satisfaction of program restrictions	(34,782)	-	-	(34,782)
INCREASE (DECREASE) IN TEMPORARILY RESTRICTED NET ASSETS	(2,132)	-	-	(2,132)
PERMANENTLY RESTRICTED NET ASSETS				
Unrealized gain on investment	9,152	-	-	9,152
INCREASE (DECREASE) IN PERMANENTLY RESTRICTED NET ASSETS	9,152	-	-	9,152
CHANGE IN NET ASSETS	261,527	(19,208)	-	242,319
NET ASSETS (DEFICIT) - BEGINNING OF YEAR	15,746,225	(581,662)	-	15,164,563
NET ASSETS (DEFICIT) - END OF YEAR	\$ 16,007,752	\$ (600,870)	\$ -	\$ 15,406,882

The accompanying notes are an integral part of this statement.

SALUSCARE, INC.
CONSOLIDATING SCHEDULE OF ACTIVITIES
Year ended June 30, 2016

	SalusCare, Inc.	LMHC Properties, Inc.	Eliminations	Totals
UNRESTRICTED NET ASSETS				
SUPPORT AND REVENUE				
Support:				
State grants	\$ 13,754,929	\$ -	\$ -	\$ 13,754,929
Other governmental	6,251,576	-	-	6,251,576
Contributions and in-kind revenue	614,516	-	-	614,516
TOTAL SUPPORT	20,621,021	-	-	20,621,021
Revenue:				
Net client fee revenue	8,932,592	-	-	8,932,592
Interest income	7,483	12	-	7,495
Unrealized gain/loss on derivative/investment	(133,708)	-	-	(133,708)
Other income	534,822	157,075	(4,752)	687,145
TOTAL REVENUE	9,341,189	157,087	(4,752)	9,493,524
Net assets released from restrictions:				
Satisfaction of program restrictions	42,162	-	-	42,162
TOTAL UNRESTRICTED SUPPORT AND REVENUE	30,004,372	157,087	(4,752)	30,156,707
Expenses and losses:				
Program Services:				
Adult mental health	13,102,714	-	-	13,102,714
Children's mental health	3,921,621	-	-	3,921,621
Children and family services	1,943,462	-	-	1,943,462
Adult substance abuse	6,471,220	-	-	6,471,220
Children's substance abuse	1,566,325	-	-	1,566,325
Other support services	2,439,556	-	-	2,439,556
TOTAL PROGRAM SERVICES	29,444,898	-	-	29,444,898
Support services:				
Real estate holding company	-	151,965	(4,752)	147,213
TOTAL SUPPORT SERVICES	-	151,965	(4,752)	147,213
TOTAL UNRESTRICTED EXPENSES	29,444,898	151,965	(4,752)	29,592,111
INCREASE (DECREASE) IN UNRESTRICTED NET ASSETS	559,474	5,122	-	564,596
TEMPORARILY RESTRICTED NET ASSETS				
Contributions	29,372	-	-	29,372
Interest	-	-	-	-
Net assets released from restrictions:				
Satisfaction of program restrictions	(42,162)	-	-	(42,162)
INCREASE (DECREASE) IN TEMPORARILY RESTRICTED NET ASSETS	(12,790)	-	-	(12,790)
PERMANENTLY RESTRICTED NET ASSETS				
Unrealized loss on investment	(3,163)	-	-	(3,163)
INCREASE (DECREASE) IN PERMANENTLY RESTRICTED NET ASSETS	(3,163)	-	-	(3,163)
CHANGE IN NET ASSETS	546,684	5,122	-	551,806
NET ASSETS (DEFICIT) - BEGINNING OF YEAR	15,199,541	(586,784)	-	14,612,757
NET ASSETS (DEFICIT) - END OF YEAR	\$ 15,746,225	\$ (581,662)	\$ -	\$ 15,164,563

The accompanying notes are an integral part of this statement.

**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

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**Independent Auditor's Report on Internal Control Over Financial Reporting
and on Compliance and Other Matters Based on an Audit of Consolidated Financial
Statements Performed in Accordance with Government Auditing Standards**

Board of Directors
SalusCare, Inc.
3763 Evans Avenue
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 consolidated financial statements of SalusCare, Inc., which comprise the consolidated statement of financial position as of June 30, 2017, and the related consolidated statements of activities, functional expenses and cash flows for the year then ended, and the related notes to the consolidated financial statements, and have issued our report thereon dated November 15, 2017.

Internal Control Over Financial Reporting

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

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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 SalusCare, Inc.'s consolidated 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 consolidated 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 SalusCare, Inc.'s internal control and compliance. Accordingly, this communication is not suitable for any other purpose.



TUSCAN & COMPANY, P.A.

Fort Myers, Florida

November 15, 2017



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 & Company, PA

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Affiliations

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 Private Companies Practice Section
 Tax Division

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
 SalusCare, Inc.
 3763 Evans Avenue
 Fort Myers, Florida 33901

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

We have audited SalusCare, Inc.'s compliance with the types of compliance requirements described in the OMB Compliance Supplement and the Department of Financial Services "State Projects Compliance Supplement" that could have a direct and material effect on each of SalusCare, Inc.'s major federal programs and major state projects for the year ended June 30, 2017. SalusCare, Inc.'s major federal programs and major state projects are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

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

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of SalusCare, 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

INTEGRITY SERVICE EXPERIENCE

the Auditor General 10.650 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 and/or major state project occurred. An audit includes examining, on a test basis, evidence about SalusCare, 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 SalusCare, Inc.'s compliance.

Opinion on Each Major Federal Program and Each Major State Project

In our opinion, SalusCare, 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 June 30, 2017.

Report on Internal Control Over Compliance

Management of SalusCare, 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 SalusCare, 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 were 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 SalusCare, Inc. internal control over compliance.

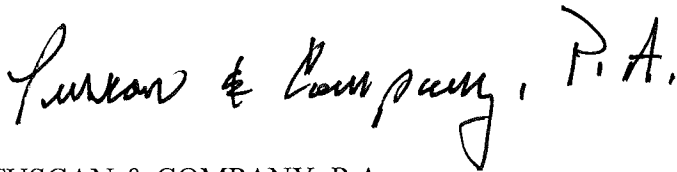
A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program and/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.

Purpose of the Report

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 "Tuscan & Company, P.A." The signature is written in a cursive, flowing style.

TUSCAN & COMPANY, P.A.
Fort Myers, Florida
November 15, 2017

SALUSCARE, INC.
SCHEDULE OF FINDINGS AND QUESTIONED
COSTS - FEDERAL AWARDS AND STATE FINANCIAL ASSISTANCE
Year Ended June 30, 2017

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>
Identification of major programs:	

CFDA	
<u>Number(s)</u>	<u>Name of Federal Program or Cluster</u>
93.959	Block Grants for Prevention and Treatment of Substance Abuse

Dollar threshold used to distinguish between Type A and Type B programs? Threshold used was \$750,000

Auditee qualified as low-risk auditee? _____ Yes X No

Listing of Subrecipients and amounts passed-through: None - There were no subgrantees

SCHEDULE OF FINDINGS AND QUESTIONED

COSTS - FEDERAL AWARDS AND STATE FINANCIAL ASSISTANCE, CONTINUED

Year Ended June 30, 2017

Section II - Financial Statement Findings

There were no reportable conditions, material weaknesses, or instances of noncompliance related to the financial statements. However, there was a prior year comment (2016-002) that appears to be resolved.

Section III - Federal Award Findings and Questioned Costs

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

Status of Federal Prior Year Findings

There were no prior year federal 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 X No

Identification of major projects:

CSFA	
<u>Number(s)</u>	<u>Name of State Project</u>
60.150	QH7CF State of Florida, Department of Children and Families Community Action Team

Dollar threshold used to distinguish between Type A and Type B projects: _____ Threshold used was \$97,000

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. However, there was a prior year comment (2016-002) that appears to be resolved.

Section III- State Financial Assistance Findings and Questioned Costs

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

Status of State Financial Assistance Prior Year Findings

Prior year state finding (2016-001), a significant deficiency, appears to have been resolved.



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 Tax Division

INDEPENDENT AUDITOR'S REPORT TO MANAGEMENT

Board of Directors
 SalusCare, Inc.
 3763 Evans Avenue
 Fort Myers, Florida 33901

In planning and performing our audit of the financial statements of SalusCare, Inc. (a not-for-profit Florida Corporation) as of and for the year ended June 30, 2017, we considered 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 SalusCare Inc.'s internal control. Accordingly, we do not express an opinion on the effectiveness of the SalusCare, 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.

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 Audit, Nonprofit and For-Profit Organizations" (Revised September 30, 2016) Rule 10.656(3)(e)

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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 are designed to help the SalusCare, Inc. make improvements and achieve operational efficiencies. Our comments reflect our desire to be of continuing assistance to SalusCare, Inc.

PRIOR YEAR COMMENTS THAT CONTINUE TO APPLY:

The prior year comments appears to have been resolved.

CURRENT YEAR COMMENTS:

None - No financially significant comments noted.

This report is intended solely for the information and use of the Board of Directors, 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.

Tuscan & Company, P.A.

TUSCAN & COMPANY, P.A.

Fort Myers, Florida

November 15, 2017

EXHIBIT



December 4, 2017

Tuscan & Company, PA
12621 World Plaza Lane
Building 55
Fort Myers, Florida 33907

Dear Mr. Tuscan:

We have received the audit report for fiscal year ended June 30, 2017 and are pleased to note that there are no current year comments requiring management's response.

As you know, the prior year findings included a significant deficiency related to signatures on the Treatment Consent and Financial Consents. It is SalusCare's position that policies were being followed and there were no breaks in the system. As of April 10, 2017, SalusCare confirmed that all affected patient files had been reviewed and corrected. We are also pleased to note that the audit report finds these findings resolved.

We appreciate the efforts extended on behalf of yourself and your team, and look forward to working with you in the future.

Sincerely,

A handwritten signature in blue ink that reads 'Ronne Apicella'.

Ronne Apicella
Chief Financial Officer

FORMERLY

Lee Mental Health



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