Consolidated Financial Statements and Florida Single Audit

The Devereux Foundation and Controlled Entities
d/b/a Devereux Advanced Behavioral Health
Year Ended June 30, 2019
With Reports of Independent Auditors

Ernst & Young LLP

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

Consolidated Financial Statements
and Florida Single Audit

Year Ended June 30, 2019

Contents

Ernst & Young LLP
99 Wood Avenue South
Metropark
P.O. Box 751
Iselin, NJ 08830-0471

Tel: +1 732 516 4200
Fax: +1 732 516 4429
ey.com

Report of Independent Auditors

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

Report on the Financial Statements

We have audited the accompanying consolidated financial statements of The Devereux Foundation and Controlled Entities d/b/a Devereux Advanced Behavioral Health (Devereux), which comprise the consolidated balance sheets as of June 30, 2019 and 2018, and the related consolidated statements of operations and changes in net assets and cash flows for the years then ended, and the related notes to the consolidated financial statements.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of The Devereux Foundation and Controlled Entities d/b/a Devereux Advanced Behavioral Health as of June 30, 2019 and 2018, and the consolidated results of their operations and changes in net assets and their cash flows for the years then ended, in conformity with U.S. generally accepted accounting principles.

Adoption of ASU No. 2014-09, *Revenue from Contracts with Customers*, and ASU No. 2016-14, *Not-for-Profit Entities: Presentation of Financial Statements of Not-for-Profit Entities*

As discussed in Note 2 to the consolidated financial statements, The Devereux Foundation and Controlled Entities d/b/a Devereux Advanced Behavioral Health changed their method of revenue recognition as a result of the adoption of the amendments to the Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) resulting from Accounting Standards Update No. (ASU) 2014-09, *Revenue from Contracts with Customers*, effective July 1, 2018, and adopted the amendments to the FASB ASC resulting from ASU 2016-14, *Not-for-Profit Entities: Presentation of Financial Statements of Not-for-Profit Entities*, effective June 30, 2019. Our opinion is not modified with respect to these matters.

Supplementary Information

Our audits were conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The accompanying Schedule of Expenditures of State Financial Assistance for the year ended June 30, 2019, as required by Section 215.97, *Florida Statutes*, and Chapter 10.650, *Rules of the Auditor General*, is presented for purposes of additional analysis and is not a required part of the consolidated financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the consolidated financial statements. The information has been subjected to the auditing procedures applied in the audit of the consolidated financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the consolidated financial statements or to the consolidated financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States. In our opinion, the information is fairly stated, in all material respects, in relation to the consolidated financial statements as a whole.

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Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we also have issued our report dated September 26, 2019, on our consideration of Devereux's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely 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 effectiveness of Devereux's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Devereux's internal control over financial reporting and compliance.

Ernst + Young LLP

September 26, 2019, except for our report
on the Schedule of Expenditures of State
Financial Assistance, for which the date is
December 20, 2019

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

Consolidated Balance Sheets

(In Thousands)

	June 30	
	2019	**2018**
Assets		
Current assets:		
Cash and cash equivalents, including client funds on deposit of $1,977 and $2,148 in 2019 and 2018, respectively	**$ 12,133**	$ 7,985
Accounts receivable, net	**60,487**	54,960
Current portion of assets limited as to use	**792**	766
Operating fund investments	**21,543**	24,660
Prepaid expenses and other current assets	**4,402**	4,422
Total current assets	**99,357**	92,793
Assets limited as to use:		
By board for designated purposes	**111,903**	106,885
By trustees under bond indenture agreements	**536**	535
By donor	**16,138**	15,924
By insurance agreement	**8,000**	8,000
	136,577	131,344
Property and equipment, net	**112,203**	109,429
Other assets:		
Other assets	**1,865**	1,508
Pledges receivable and deferred gifts	**12,625**	7,680
Total other assets	**14,490**	9,188
Total assets	**$ 362,627**	$ 342,754

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

Consolidated Balance Sheets (continued)
(In Thousands)

	June 30	
	2019	**2018**
Liabilities and net assets		
Current liabilities:		
Current portion of long-term debt	**$ 3,546**	$ 4,215
Accounts payable and accrued expenses	**9,357**	10,276
Employee compensation and related benefits	**29,926**	26,747
Current portion of estimated settlements due to third-party payors	**12,073**	13,427
Current portion of reserves under insurance programs and other current liabilities	**21,461**	19,102
Client funds on deposit	**1,977**	2,148
Total current liabilities	**78,340**	75,915
Estimated settlements due to third-party payors, net of current portion	**1,553**	1,205
Reserves under insurance programs and other liabilities, net of current portion	**19,625**	19,011
Deferred revenue	**5,971**	6,062
Obligation to provide future services and use of facilities to continuing care clients	**6,124**	7,273
Long-term debt, net of current portion	**40,815**	45,046
Total liabilities	**152,428**	154,512
Net assets:		
Without donor restrictions	**181,518**	164,637
With donor restrictions	**28,745**	23,582
Total Devereux Advanced Behavioral Health net assets	**210,263**	188,219
Non-controlling interests	**(64)**	23
Total net assets including non-controlling interests	**210,199**	188,242
Total liabilities and net assets	**$ 362,627**	$ 342,754

See accompanying notes.

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

Consolidated Statements of Operations and Changes in Net Assets

(In Thousands)

	Year Ended June 30 2019	2018
Net assets without donor restrictions		
Revenue:		
Net client revenue	**$ 482,802**	$ 458,421
Investment income	**1,402**	9,961
Gifts and bequests	**4,569**	3,451
Other revenue	**10,710**	11,806
Net assets released from restrictions for operations	**1,225**	1,436
	500,708	485,075
Expenses:		
Salaries and wages	**290,455**	276,115
Employee benefits	**78,276**	82,433
Food	**7,884**	7,865
Purchased services	**39,320**	37,453
Supplies	**7,853**	7,836
Plant operation and maintenance	**27,320**	27,218
Provision for bad debts	**–**	2,546
Depreciation and amortization	**14,286**	14,385
Interest	**2,254**	2,491
Insurance	**11,588**	17,325
Other	**11,465**	11,104
	490,701	486,771
Operating income (loss) before other items	**10,007**	(1,696)
Other items:		
Loss on investment in joint venture	**(276)**	(368)
Decrease (increase) in obligation to provide future services and the use of facilities to continuing care clients	**1,149**	(950)
Change in fair value of interest rate swap	**(301)**	305
Net (loss) gain on disposition of property	**(25)**	269
Net gain on insurance proceeds from natural disaster	**987**	2,664
Other income, net	**1,534**	1,920
Excess of revenue over expenses before non-controlling interests	**11,541**	224
Less: Net loss attributable to non-controlling interests	**(87)**	(17)
Excess of revenue over expenses	**11,628**	241

(Continued on following page.)

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

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

	Year Ended June 30	
	2019	**2018**
Net assets without donor restrictions (continued)		
Excess of revenue over expenses	**$ 11,628**	$ 241
Other changes in net assets without donor restrictions:		
Unrealized gains on investments	**4,366**	1,179
Net assets released from restrictions for property and equipment purchases	**887**	506
Increase in net assets without donor restrictions	**16,881**	1,926
Net assets with donor restrictions		
Gifts, grants, and bequests, net	**7,742**	3,499
Net realized and unrealized gain on investments	**110**	370
Net assets released from restrictions for operations	**(1,474)**	(1,507)
Net assets released from restrictions to finance property and equipment purchases	**(887)**	(506)
Appropriations of net assets for intended purposes, net	**(328)**	(331)
Increase in net assets with donor restrictions	**5,163**	1,525
Non-controlling interests		
Net loss attributable to non-controlling interests	**(87)**	(17)
Capital contributions	**–**	40
(Decrease) increase in non-controlling interests	**(87)**	23
Increase in net assets, including non-controlling interests	**21,957**	3,474
Net assets, beginning of year	**188,242**	184,768
Net assets, end of year	**$ 210,199**	$ 188,242

See accompanying notes.

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

Consolidated Statements of Cash Flows
(In Thousands)

	Year Ended June 30	
	2019	**2018**
Operating activities		
Increase in net assets, including non-controlling interests	**$ 21,957**	$ 3,474
Adjustments to reconcile increase in net assets to net cash provided by operating activities:		
Net loss (gain) on disposition of property	**25**	(269)
Net gain on insurance proceeds from natural disaster	**(987)**	(2,664)
Depreciation and amortization	**14,286**	14,385
Provision for bad debts	**–**	2,546
Loss from joint venture	**276**	368
Net realized and unrealized gains in fair value of investments	**(1,512)**	(3,827)
(Decrease) increase in obligation to provide future services	**(1,149)**	950
Change in fair value of interest rate swap	**301**	(305)
Restricted contributions	**(7,742)**	(3,499)
Changes in operating assets and liabilities:		
Accounts receivable	**(5,527)**	(4,491)
Prepaid expenses and other current assets	**20**	80
Pledges receivable	**249**	71
Accounts payable and accrued expenses	**(1,178)**	1,497
Employee compensation and related benefits	**3,179**	1,825
Deferred revenue	**(91)**	(245)
Estimated settlements due to third-party payors, net	**(1,006)**	(2,347)
Reserves under insurance programs and other current liabilities	**2,160**	4,948
Net cash provided by operating activities	**23,261**	12,497
Investing activities		
Purchases of property and equipment, net	**(17,009)**	(16,946)
Joint venture capital contributions / loans	**(292)**	(368)
Net gain on insurance proceeds from natural disaster	**987**	2,664
Purchases of investments	**(66,762)**	(23,579)
Sales of investments	**66,132**	25,945
Net cash used in investing activities	**(16,944)**	(12,284)
Financing activities		
Repayments of long-term debt	**(4,717)**	(3,945)
Restricted contributions, net	**2,548**	2,493
Net cash used in financing activities	**(2,169)**	(1,452)
Increase (decrease) in cash and cash equivalents	**4,148**	(1,239)
Cash and cash equivalents at beginning of year	**7,985**	9,224
Cash and cash equivalents at end of year	**$ 12,133**	$ 7,985

See accompanying notes.

1. Organization and Basis of Presentation

The Devereux Foundation and Controlled Entities d/b/a Devereux Advanced Behavioral Health (Devereux) is a not-for-profit corporation, dually designated by the Internal Revenue Service (IRS) as an educational facility and health care organization, with a national network of behavioral health treatment centers for children, adolescents, and adults with complex emotional, psychiatric, and developmental disabilities, including individuals with autism spectrum disorders. Treatment settings range along a continuum from acute psychiatric inpatient and campus-based residential settings to community group homes, outpatient, foster care, in home, educational, vocational, and prevention programs.

Devereux functions as the sole corporate member for the following entities (the Controlled Entities), which are included in the accompanying consolidated financial statements:

> Helena Devereux Foundation (HD Foundation) is a Pennsylvania not-for-profit corporation, which holds certain assets to benefit Devereux's programs.
>
> Devereux Cleo Wallace (DCW) is a Colorado not-for-profit corporation that operates a psychiatric residential treatment facility and provides other behavioral health services in the Denver area. DCW is the sole corporate member of Devereux Cleo Wallace Foundation (DCW Foundation), a Colorado not-for-profit corporation that was established for the benefit of DCW.

Devereux holds a 60% interest in QualityHealth Staffing, LLC (QualityHealth), a consolidated subsidiary formed in February 2018 to provide behavioral health staffing services. The accounts of QualityHealth are consolidated with those of Devereux. The change in non-controlling interest is separately reported.

All significant intercompany balances and transactions have been eliminated in the accompanying consolidated financial statements.

1. Organization and Basis of Presentation (continued)

Through June 30, 2018, Devereux was affiliated with Communities Connected for Kids, Inc. (CCK), formerly known as Devereux Community Based Care, a Florida not-for-profit corporation which administers and coordinates child welfare and related services in Indian River, Martin, Okeechobee, and St. Lucie counties in Florida. Prior to July 1, 2018, Devereux appointed a simple majority of CCK's Board of Directors, with the remaining seats filled by individuals from the local community. However, major decisions of the board required supermajority approval, defined as two-thirds of the directors. Accordingly, Devereux did not control the board of CCK and, because it had no direct economic or controlling interest, CCK was not consolidated into Devereux's consolidated financial statements. Effective July 1, 2018. Devereux no longer appointed any members to CCK's Board. Devereux continues to provide certain administrative, financial, and other support services to CCK.

2. Summary of Significant Accounting Policies

Use of Estimates

The preparation of consolidated financial statements in conformity with accounting principles generally accepted in the United States (U.S. GAAP) requires management to make estimates and assumptions that affect the amounts reported in the consolidated financial statements and accompanying notes. Actual results could differ from those estimates.

Cash and Cash Equivalents

Cash and cash equivalents, for which the carrying value approximates fair value, include money market funds and certain investments with original maturities of three months or less. Devereux does not hold any money market funds with significant liquidity restrictions that would be required to be excluded from cash equivalents.

2. Summary of Significant Accounting Policies (continued)

Fair Value of Financial Instruments

Financial instruments consist of cash equivalents, accounts receivable, assets limited as to use and operating fund investments, accounts payable and accrued expenses, and long-term debt. The carrying amounts reported on the consolidated balance sheets for cash equivalents, accounts receivable, and accounts payable and accrued expenses approximate fair value. Management's estimates of the fair value of other financial instruments are described elsewhere in the notes to the consolidated financial statements.

Accounts Receivable

Accounts receivable are recognized in the period services are provided and are stated at an amount that reflects the consideration Devereux expects to receive from programs administered by state and local government agencies, commercial insurance, and private payors at established contracted rates.

Prior to July 1, 2018, Devereux provided an allowance for uncollectible accounts for estimated losses resulting from the unwillingness or inability of clients to make payments for services. The allowance is determined by analyzing historical data and trends. Accounts receivable are charged off against the allowance for uncollectible accounts when management determines that recovery is unlikely and Devereux ceases collection efforts. As described below, as a result of the adoption of Accounting Standards Update No. (ASU) 2014-09, beginning on July 1, 2018, the provision for bad debts as previously recorded is considered a price concession and therefore is shown as a direct reduction to net client revenue as opposed to a provision for bad debt. As such, beginning on July 1, 2018, additions to the allowance for uncollectible accounts result only from a delinquency of accounts that were considered collectible at the time services were provided.

Assets Limited as to Use, Investments, and Investment Income

Assets limited as to use include assets set aside by the Board of Trustees (the Board), assets held by trustees under bond indenture agreements, assets for insurance agreements, and assets for donor purposes. Amounts set aside by the Board are designated for the operation of certain facilities, scholarships, continuing care, and other contingencies. The Board retains control over designated

2. Summary of Significant Accounting Policies (continued)

assets and may, at its discretion, subsequently designate the assets for other purposes. Assets limited as to use that are required for current obligations or designated for current use are reported as current assets.

Investments in debt and equity securities are measured at fair value based on quoted market prices. Investment income or loss (including realized gains and losses on investments, interest, and dividends) is included in investment income, or included in net realized and unrealized gains on investments in net assets with donor restrictions, if such income is restricted by the donor or legislation. Devereux periodically reviews its investments for other-than-temporary declines in the market value of investments. When an other-than-temporary decline is identified, the investment's cost is written down to the current market value, and the loss is recorded as a component of the excess of revenue over expenses.

Assets limited as to use and operating fund investments are classified as other-than-trading securities. Unrealized gains and losses on investments, to the extent that such losses are considered temporary, are reported as a component of other changes in net assets without donor restrictions for investments that were not held for donor restricted purposes. Realized gains and losses on investments sold are computed using the weighted average cost method.

Property and Equipment

Property and equipment are recorded at cost or, if donated, at fair market value at the date of receipt. Depreciation is provided on a straight-line basis over the expected useful lives of the assets. Gifts or grants for the purchase of long-lived assets, such as land, buildings, or equipment, are reported as other changes in net assets without donor restrictions. Interest cost incurred on borrowed funds during the period of construction of capital assets is capitalized as a component of acquiring those assets. No interest was capitalized in 2019 or 2018.

Devereux continually evaluates whether later events and circumstances have occurred that indicate the remaining estimated useful life of long-lived assets may warrant revision or that the remaining balance may not be recoverable. When factors indicate that long-lived assets should be evaluated for possible impairment, Devereux uses an estimate of the related undiscounted operating income over the remaining life of the long-lived asset, or determines the fair value of the long-lived asset in measuring whether the long-lived asset is recoverable. Devereux believes that no revision to the remaining useful lives or write-down of long-lived assets was required as of June 30, 2019 or 2018.

2. Summary of Significant Accounting Policies (continued)

Deferred Financing Costs

Deferred financing costs represent expenditures incurred in the issuance of long-term debt, and are amortized using the effective-interest-rate method over the term of the related debt. These costs are presented on the consolidated balance sheet as a direct reduction of the carrying value of the associated debt, consistent with the presentation of debt discounts or premiums.

Classification of Net Assets

Devereux separately accounts for and reports net assets without donor restrictions and net assets with donor restrictions. Net assets without donor restrictions are not externally restricted for identified purposes by donors or grantors. Net assets without donor restrictions include resources that the governing board may use for any designated purpose and resources whose use is limited by agreement between Devereux and an outside party other than the donor or grantor.

Net assets with donor restrictions represent those assets whose use has been limited by donors to a specific time period or purpose, or have been restricted by donors to be maintained by Devereux in perpetuity, with income generally available to support health care and education services. When the donors' intentions are met or a time restriction expires, the net assets are reclassified to net assets without donor restrictions and reported on the consolidated statements of operations and changes in net assets as net assets released from restrictions. Net assets with donor restrictions that are required to be maintained in perpetuity are invested on a pooled basis with Devereux's Board-designated investments. In accordance with Commonwealth of Pennsylvania Act 141, organizations are annually permitted to spend between 2% and 7% of permanent endowments. For both 2019 and 2018, Devereux elected to spend at a blended rate of approximately 4.5%. Additionally, in accordance with the Pennsylvania law, Devereux classifies as net assets with donor restrictions that are required to be maintained in perpetuity (a) the value of gifts donated to the permanent endowment and (b) accumulations to the permanent endowment made in accordance with the direction of the applicable donor gift instrument. This is regarded as the "historic dollar value" of the endowed fund. Any remaining unspent earnings of the donor-restricted endowment funds is not classified as a permanent endowment and is recorded within net asset with donor restrictions until those amounts are appropriated for expenditure by Devereux in a manner consistent with Devereux's spending policy.

2. Summary of Significant Accounting Policies (continued)

Excess of Revenue Over Expenses

The accompanying consolidated statements of operations and changes in net assets include the excess of revenue over expenses as the performance indicator. Changes in net assets without donor restrictions which are excluded from the excess of revenue over expenses are unrealized gains and losses on investments, to the extent that such losses are considered temporary, and net assets released from restrictions for property and equipment purchases. For purposes of presentation, transactions deemed by management to be ongoing, major, or central to the provision of services are reported as operating revenue and operating expenses; peripheral or incidental transactions and unusual, nonrecurring items are excluded from operating results and are reported as other items within excess of revenues over expenses.

Income Taxes

The IRS determined that Devereux, HD Foundation, DCW, and DCW Foundation qualify for exemption from federal income taxes on related income under the Internal Revenue Code. The provision for income taxes associated with unrelated business income is immaterial to the consolidated financial statements. Devereux, HD Foundation, DCW, and DCW Foundation have reviewed the technical merits of each of its tax positions in accordance with U.S. GAAP for uncertainty in income taxes and have determined there are no uncertain tax positions that would have a material impact on the accompanying consolidated financial statements. The profits and losses of QualityHealth passthrough to Devereux based on their member share. There is no provision for income taxes related to this income as it is considered related to Devereux's tax-exempt purpose.

The Tax Cuts and Jobs Act (Act) was enacted on December 22, 2017. For tax-exempt entities, the Act requires organizations to categorize certain fringe benefit expenses as a source of unrelated business income subject to tax, pay an excise tax on compensation above certain thresholds, and record income or loss from unrelated business activities on an activity-by-activity basis, among other provisions. Regulations necessary to implement certain aspects of TCJA are expected to be promulgated by the Internal Revenue Service (IRS) in 2019. As of and for the year ended June 30, 2019, Devereux has made reasonable estimates of the provision for income taxes, the compensation excise tax, and the effects, if any, on existing deferred tax balances based on accounting guidance included in Accounting Standards Codification (ASC) 740, *Income Taxes*.

2. Summary of Significant Accounting Policies (continued)

The tax provision was not material for the years ended June 30, 2019 and 2018.

Charity Care

In advancement of its charitable mission, Devereux accepts clients with limited or no ability to pay for services. A client is classified as a charity client by reference to certain established policies. Essentially, these policies define charity services as those for which payment is not anticipated. In assessing a client's ability to pay, Devereux uses generally recognized poverty income levels, but also includes cases where incurred charges are significant relative to income.

Under certain governmental payment programs, Devereux has been paid an amount less than actual costs due to agency budgetary constraints or other factors. The economic loss attributable to such programs is also included as charity care. Charity care amounts are not included in net client revenue or accounts receivable. The amount of costs incurred for services provided to clients that qualify for charity care and the economic shortfall attributable to unreimbursed costs of certain programs aggregated $12,928 and $18,389 in 2019 and 2018, respectively.

Devereux also provides a variety of services and benefits within the communities in which it operates, for which no compensation is received. The cost of these services has not been quantified and, therefore, is not included in the charity care amounts referred to above.

Contributions and Pledges Receivable

Unconditional promises to give cash and other assets are reported at fair value at the date the promise is received. Unconditional promises to give cash and other assets that are expected to be collected in future years are recorded at the present value of estimated future cash flows. The discounts on those amounts are computed using a risk-free interest rate applicable to the year in which the promise is received. The gifts are reported as gifts, grants, and bequests in net assets with donor restrictions if they are received with donor stipulations that limit the timing or purpose for which donated assets can be used. When a donor restriction expires, net assets with donor restrictions are reclassified to net assets without donor restrictions and reported on the consolidated

2. Summary of Significant Accounting Policies (continued)

statement of operations and changes in net assets as net assets released from restrictions. Donor-restricted contributions whose restrictions are met within the same year as received are reported as gifts and bequests in the accompanying consolidated financial statements.

Recent Accounting Pronouncements

Adopted Changes

In May 2014, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) 2014-09, *Revenue from Contracts with Customers (Topic 606)*. The new standard requires revenue recognized to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which a company expects to receive in exchange for those goods or services. The standard also requires new, expanded disclosures regarding revenue recognition. The guidance in ASU 2014-09 supersedes the FASB's prior revenue recognition requirements in ASC 605, *Revenue Recognition*, and most industry-specific guidance. The FASB subsequently issued ASU 2015-14, *Revenue from Contracts with Customers (Topic 606)*, which deferred the effective dates of ASU 2014-09. Based on ASU 2015-14, the provisions of ASU 2014-09 become effective for Devereux for annual reporting periods beginning after December 15, 2017. Devereux adopted ASU 2014-09 effective July 1, 2018, following the modified retrospective method. As a result of implementing ASU 2014-09, certain client activity where collection is uncertain (representing approximately $2,633 for the year ended June 30, 2019) previously reported through June 30, 2018, as net client revenue and provision for bad debts in Devereux's consolidated statements of operations and changes in net assets no longer meets the criteria for revenue recognition and, accordingly, the provision for bad debts after the adoption date is significantly reduced with a corresponding reduction to net client revenue. Such activity is now classified as a price concession (see Note 3). Other aspects of Devereux's implementation of ASU 2014-09 impacting net client revenue, which include judgments regarding collection analyses and estimates of variable consideration and the addition of certain qualitative and quantitative disclosures, are reflected in Note 3. The adoption of ASU 2014-09 in relation to other revenue activity had no material impact to the consolidated financial statements.

2. Summary of Significant Accounting Policies (continued)

In August 2016, the FASB issued ASU 2016-14, *Not-for-Profit Entities (Topic 958): Presentation of Financial Statements of Not-for-Profit Entities,* which eliminates the requirement for not-for-profits (NFPs) to classify net assets as unrestricted, temporarily restricted, and permanently restricted. Instead, NFPs are required to classify net assets as net assets with donor restrictions or without donor restrictions. The guidance also modified required disclosures and reporting related to net assets, investment expenses, and information regarding liquidity. NFPs are also required to report all expenses by both functional and natural classification in one location. The provisions of ASU 2016-14 became effective for Devereux for annual periods beginning after December 15, 2017. Devereux adopted ASU 2016-14 effective for its consolidated financial statements as of and for the year ended June 30, 2019.

In June 2018, the FASB issued ASU 2018-08, *Not-for-Profit Entities (Topic 958): Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made*. ASU 2018-08 clarifies existing guidance in order to address diversity in practice in classifying grants (including governmental grants) and contracts received by not-for-profit entities, and requires entities to evaluate whether the resource provider receives commensurate value. In addition, the standard clarifies the guidance on how entities determine when a contribution is conditional, including whether the agreement includes a barrier (or barriers) that must be overcome for the recipient to be entitled to the transferred assets and a right of return of the transferred assets (or a right of release of the promisor's obligation to transfer the assets). The standard should be applied on a modified prospective basis to agreements that are not completed as of the effective date and to agreements entered into after the effective date. Retrospective application is permitted. ASU 2018-08 applies to all entities that make or receive contributions and became effective for Devereux for fiscal years beginning after June 15, 2018, including interim periods within those years. Devereux adopted ASU 2018-08 for its consolidated financial statements effective July 1, 2018. Financial assistance received from state and local government agencies is included within net client revenue on the consolidated statements of operations and changes in net assets. The adoption had no material impact to the consolidated financial statements.

2. Summary of Significant Accounting Policies (continued)

Pending Changes

In January 2016, the FASB issued ASU 2016-01, *Financial Instruments – Overall (Subtopic 825-10): Recognition and Measurement of Financial Assets and Financial Liabilities*. ASU 2016-01 will require business-oriented health care not-for-profit entities to measure equity investments that do not result in consolidation and are not accounted for under the equity method at fair value and recognize any changes in fair value in the performance indicator unless the investments qualify for a new practicality exception. The practicality exception is available for equity investments without a readily determinable fair value, for which measurement would be based on cost less impairment and adjusted for observable price changes. This standard also allows entities that are not public business entities, among other things, to no longer disclose the fair value and significant assumptions used to estimate the fair value of certain financial instruments carried at amortized cost. The guidance is effective for annual periods beginning after December 15, 2018. Devereux early adopted the provision of the standard that eliminates the disclosure requirement for the fair value of long-term debt measured at amortized cost. Subsequent to the adoption of the remaining provisions of ASU 2016-01 that are not eligible for early adoption, Devereux will no longer be able to recognize unrealized holding gains and losses on equity securities currently classified as other-than-trading outside of the performance indicator. This ASU does not impact the accounting for investments in debt securities.

In February 2016, the FASB issued ASU 2016-02, *Leases (Topic 842)*, which will require a lessee to report most leases on its balance sheet but recognize expenses on its income statement in a manner similar to current accounting. The guidance also eliminates current real estate-specific provisions. The provisions of ASU 2016-02 are effective for Devereux for annual periods beginning after December 15, 2018, and interim periods within those years. Early adoption is permitted. Devereux is currently evaluating the impact the adoption of this standard will have on the consolidated financial statements. Subsequent to adoption, assets and liabilities will increase to reflect Devereux's right to use certain assets and the corresponding liabilities associated with operating leases, with no significant impact to net assets or the performance indicator.

2. Summary of Significant Accounting Policies (continued)

In August 2016, the FASB issued ASU 2016-15, *Statement of Cash Flows – Classification of Certain Cash Receipts and Cash Payments,* which addresses the following eight specific cash flow issues in order to limit diversity in practice: debt prepayment or debt extinguishment costs; settlement of zero-coupon debt instruments or other debt instruments with coupon interest rates that are insignificant in relation to the effective interest rate of the borrowing; contingent consideration payments made after a business combination; proceeds from the settlement of insurance claims; proceeds from the settlement of corporate-owned life insurance policies, including bank-owned life insurance policies; distributions received from equity method investees; beneficial interests in securitization transactions; and separately identifiable cash flows and application of the predominance principle. The provisions of ASU 2016-15 are effective for Devereux for annual periods beginning after December 15, 2018, and interim periods thereafter. Early adoption is permitted. Devereux has not completed the process of evaluating the impact of ASU 2016-15 on its consolidated financial statements.

In November 2016, the FASB issued ASU 2016-18, *Statement of Cash Flows – Restricted Cash*, which requires that the statement of cash flows explain the change during the period in the total of cash, cash equivalents, and amounts generally described as restricted cash or restricted cash equivalents. Therefore, amounts generally described as restricted cash and restricted cash equivalents should be included with cash and cash equivalents when reconciling the beginning-of-period and end-of-period total amounts shown on the statement of cash flows. The provisions of ASU 2016-18 are effective for Devereux for annual periods beginning after December 15, 2018, and interim periods thereafter. Early adoption is permitted. Devereux has not completed the process of evaluating the impact of ASU 2016-18 on its consolidated financial statements.

Subsequent Events

In accordance with Accounting Standards Codification (ASC) 855, *Subsequent Events*, management has evaluated subsequent events through the date the accompanying consolidated financial statements were issued on September 26, 2019.

3. Net Client Revenue

Accounts Receivable and Net Client Revenue

For Periods Commencing July 1, 2018

Effective July 1, 2018, upon the adoption of ASU 2014-09, net client revenue is reported at the amount that reflects the consideration to which Devereux expects to receive in exchange for providing care. These amounts are due from clients, third-party payors (including health insurers and government programs), and others and includes variable consideration (reductions to revenue) in determining the transaction price.

Devereux uses a portfolio approach to account for categories of client contracts as a collective group rather than recognizing revenue on an individual contract basis. The portfolios consist of major payor classes for residential revenue and outpatient and community-based revenue as well as high-balance accounts regardless of payor class. Based on historical collection trends and other analyses, Devereux believes that revenue recognized by utilizing the portfolio approach approximates the revenue that would have been recognized if an individual contract approach were used.

Devereux’s initial estimate of the transaction price for services provided to clients subject to revenue recognition is determined by reducing the total contracted rates related to the client services provided by various elements of variable consideration, including discounts, price concessions, and other reductions to Devereux’s contracted rates. The estimates for discounts and price concessions are based on contractual agreements, Devereux’s policies and historical experience.

Generally, Devereux bills government agencies and third-party payors on a monthly or weekly basis after the services are performed. Net client revenue is recognized as performance obligations are satisfied. Performance obligations are determined based on the nature of the services provided by Devereux. Net client revenue for performance obligations satisfied over time is recognized based on actual charges incurred in relation to total charges. Devereux believes that this method provides a reasonable depiction of the transfer of services over the term of the performance obligation based on the services needed to satisfy the obligation. Generally, performance obligations satisfied over time relate to residential services, education services, or case management services. As substantially all of its performance obligations relate to contracts with a

(In Thousands)

3. Net Client Revenue (continued)

duration of one year or less, Devereux has elected to apply the optional exemption provided in ASU 2014-09 and, therefore, is not required to disclose the aggregate amount of the transaction price allocated to performance obligations that are unsatisfied or partially unsatisfied at the end of the reporting period.

Subsequent changes to the estimate of the transaction price (determined on a portfolio basis when applicable) are generally recorded as adjustments to client revenue in the period of the change. For the year ended June 30, 2019, changes in Devereux's estimates of price concessions, discounts, contractual adjustments, or other reductions to expected payments for performance obligations were not significant. Portfolio collection estimates are updated based on collection trends. Subsequent changes that are determined to be the result of an adverse change in the client's ability to pay (determined on a portfolio basis when applicable) are recorded as provision for bad debts. Provision for bad debts for the year ended June 30, 2019 was not significant.

Devereux has determined that the nature, amount, timing, and uncertainty of revenue and cash flows are affected by the following factors: payors and lines of business. Tables providing details of these factors are presented below.

Net client revenue for the year ended June 30, 2019, recognized in the period from these major payor sources, is as follows:

Medicaid	$ 217,185	45%
Social service agencies	152,951	32
Educational agencies	87,060	18
Private pay	16,467	3
Commercial insurance	9,139	2
	$ 482,802	100%

(In Thousands)

3. Net Client Revenue (continued)

Net client revenue for the year ended June 30, 2019, by line of business is as follows:

Campus based residential/education	$	236,079	49%
Community based residential		123,095	26
Outpatient/other services		54,751	11
Foster care		34,784	7
Case management		16,041	3
Educational day services		10,746	2
Acute care		7,306	2
	$	482,802	100%

Devereux has elected the practical expedient allowed under ASU 2014-09 and does not adjust the promised amount of consideration from clients and third-party payors for the effects of a significant financing component due to Devereux's expectation that the period between the time the service is provided to a client and the time that the client or a third-party payor pays for that service will be one year or less. However, Devereux does, in certain limited instances, enter into payment agreements with clients that allow payments in excess of one year. For those cases, the financing component is not deemed to be significant to the contract.

Settlements with third-party payors (see description of third-party payor payment programs below) for cost report filings and retroactive adjustments due to ongoing and future audits, reviews, or investigations are considered variable consideration and are included in the determination of the estimated transaction price for providing client services. These settlements are estimated based on the terms of the payment agreement with the payor, correspondence from the payor and Devereux's historical settlement activity (for example, cost report final settlements), including an assessment to ensure that it is probable that a significant reversal in the amount of cumulative revenue recognized will not occur when the uncertainty associated with the retroactive adjustment is subsequently resolved. Such estimates are determined through either a probability-weighted estimate or an estimate of the most likely amount, depending on the circumstances related to a given estimated settlement item. Estimated settlements are adjusted in future periods as adjustments become known (that is, new information becomes available), or as years are settled or are no longer subject to such audits, reviews, and investigations.

3. Net Client Revenue (continued)

During the year ended June 30, 2019, Devereux revised estimates made in prior years to reflect the passage of time and the availability of more recent information, such as accounts receivable payor collection trends and cost report settlement activity, associated with the related revenue estimates. For the year ended June 30, 2019, the net effect of Devereux's revisions to prior year estimates resulted in net client revenue increasing by approximately $2,637.

For Periods Through June 30, 2018

Prior to the adoption of ASU 2014-09, Devereux recognized client revenue at the estimated net realizable amounts associated with services provided to clients on the basis of contractual rates for the services rendered (see description of third-party payor payment programs below) and included estimated retroactive revenue adjustments due to ongoing and future audits, reviews, and investigations.

Accounts receivable are reduced by an allowance for uncollectibles. Devereux's allowance for uncollectibles totaled $5,378 at June 30, 2018 of which $3,826 remains at June 30, 2019. In evaluating the collectability of accounts receivable, Devereux analyzes its past history and identifies trends for each of its major payor sources of revenue to estimate the appropriate allowance for uncollectibles and provision for bad debts. Management reviews data about these major payor sources of revenue in evaluating the sufficiency of the allowance for uncollectibles. Devereux analyzes contractually due amounts and provides an allowance for uncollectibles and a provision for bad debts, if necessary (for example, for payors who are known to be having financial difficulties that make the realization of amounts due unlikely). The difference between the contracted rates and the amounts actually collected after all reasonable collection efforts have been exhausted is charged off against the allowance for uncollectibles.

For the year ended June 30, 2018, Devereux revised estimates made in prior years to reflect the passage of time and the availability of more recent information, such as settlement activity, associated with the related payment items. For the year ended June 30, 2018, the net effect of Devereux's revisions to prior year settlement estimates resulted in net client revenue increasing by approximately $2,416.

3. Net Client Revenue (continued)

Third-Party Payment Programs

The majority of services are rendered to clients through reimbursement programs administered by state and local governmental agencies, in some cases through a contracted managed care organization. No single government agency accounted for more than 10% of revenue in 2019 or 2018. Under these programs, payments are based upon fee-for-service rates, a combination of historical costs and prospectively determined rates, or reasonable costs, as defined. In total, these programs accounted for 95% of total net client revenue in fiscal years 2019 and 2018. Remaining services are rendered through payment arrangements with managed care organizations, commercial insurance carriers, or private accounts.

Certain governmental agencies pay an interim rate or a fixed periodic amount during the period Devereux provides services and retroactively adjusts the payment based upon actual costs incurred during the year or based on actual units of service delivered. Third-party settlements with governmental agencies are accrued on an estimated basis in the period the related services are rendered. Estimated settlements due to third-party payors are classified as current or noncurrent based on the anticipated timing of settlements. Differences between the estimated settlement and the finalized amounts are recorded in the year of settlement. In the opinion of management, adequate provision has been made for any additional adjustments that may result from the final settlement of outstanding cost reports.

Devereux is subject to numerous laws and regulations of federal, state, and local governments. Compliance with these laws and regulations can be subject to government review and interpretation, as well as regulatory actions unknown and unasserted at this time. Government activity in the health care industry continues to increase with respect to investigations and allegations concerning possible violations of regulations by health care providers, which could result in the imposition of significant fines and penalties, as well as significant repayments of previously billed and collected revenues of client services. Devereux has implemented a corporate compliance program and conducts documentation audits of services provided and the underlying clinical documentation to ensure compliance with established regulations. When potential overpayments are identified, payors are notified and refunds are issued.

(In Thousands)

4. Investments and Liquidity

Investments are stated at fair value as follows:

	June 30	
	2019	**2018**
Assets limited as to use and operating fund investments:		
Cash and cash equivalents	**$ 3,358**	$ 3,474
Equity mutual funds	**99,780**	64,774
Commodity funds	**–**	8,414
Real estate investment trust (REIT) funds	**10,757**	4,604
Fixed-income mutual funds	**7,427**	7,710
Multi-asset funds	**17,578**	57,220
Corporate bonds	**2,866**	–
U.S. government and agency bonds	**17,146**	10,574
Total	**$ 158,912**	$ 156,770

Investment income and realized and unrealized gains and losses on investments and cash and cash equivalents are composed of the following:

	Year Ended June 30	
	2019	**2018**
Net assets without donor restrictions		
Amounts included in investment income:		
Interest and dividends	**$ 4,366**	$ 7,683
Net realized (losses) gains on sales of investments	**(2,964)**	2,278
	1,402	9,961
Other changes in net assets without donor restrictions:		
Net change in unrealized gains on investments	**4,366**	1,179
Net assets with donor restrictions		
Net realized and unrealized gains on investments	**110**	370
Total investment gain	**$ 5,878**	$ 11,510

(In Thousands)

4. Investments and Liquidity (continued)

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

	Less than 12 Months		12 Months or Longer		Total	
	Fair Value	**Unrealized Losses**	**Fair Value**	**Unrealized Losses**	**Fair Value**	**Unrealized Losses**
June 30, 2019						
U.S. government and agency bonds (1 security)	**$ 118**	**$ (3)**	**$ –**	**$ –**	**$ 118**	**$ (3)**
Total	**$ 118**	**$ (3)**	**$ –**	**$ –**	**$ 118**	**$ (3)**
June 30, 2018						
Commodity funds (1 fund)	$ –	$ –	$ 8,414	$ (289)	$ 8,414	$ (289)
Fixed-income mutual funds (2 funds)	89	(2)	7,220	(265)	7,309	(267)
U.S. government and agency bonds (8 securities)	571	(12)	3,616	(41)	4,187	(53)
Multi-asset fund (1 fund)	40,165	(1,058)	–	–	40,165	(1,058)
Total	$ 40,825	$ (1,072)	$ 19,250	$ (595)	$ 60,075	$ (1,667)

At June 30, 2019 and 2018, management determined that the unrealized losses were temporary based on the extent and length of time the securities' fair value was below cost, and are not material to the overall investment portfolio.

Additionally, as of June 30, 2019 and 2018, Devereux had gross unrealized gains of $26,366 and $23,484 on investments with fair values of $158,794 and $96,695, respectively.

(In Thousands)

4. Investments and Liquidity (continued)

Liquidity Resources

The table below presents financial assets and liquidity resources available for general expenditures within one year:

	June 30			
		2019		**2018**
Financial assets as reported on the accompanying balance sheets:				
Cash and cash equivalents	**$**	**12,133**	$	7,985
Accounts receivable		**60,487**		54,960
Operating fund investments		**21,543**		24,660
Assets limited as to use		**137,369**		132,110
Total financial assets		**231,532**		219,715
Less amounts not available to be used within one year for general expenditures:				
Assets limited as to use:				
By trustees under bond indenture agreements		**1,328**		1,301
By donor		**16,138**		15,924
By insurance agreement		**8,000**		8,000
Financial assets available and liquid to meet general expenditures within one year	**$**	**206,066**	$	194,490

Devereux has certain Board designated assets limited as to use which are available for general expenditure, subject to Board approval. Assets which are not available for general expenditure within one year in the normal course of operations including assets limited as to use for donor-restricted purposes, debt agreements, and self-insurance programs are excluded from the total liquidity balance in the table above. Additionally, Devereux maintains a line of credit of $39,000, as described in Note 9. As of June 30, 2019 and 2018, aside from letters of credit securing Devereux's obligations under insurance programs of $10,000 and $11,075, respectively, no amounts were outstanding on the line of credit.

(In Thousands)

5. Fair Value Measurements

In determining fair value, Devereux uses the market approach. The market approach utilizes prices and other relevant information generated by market transactions involving identical or comparable assets or liabilities. Information used to establish fair value estimates falls into three tiers, which prioritize the inputs used in measuring fair value. These tiers include Level 1 – defined as observable inputs such as quoted prices in active markets; Level 2 – defined as inputs other than quoted prices in active markets that are either directly or indirectly observable; and Level 3 – defined as unobservable inputs in which little or no market data exists, therefore, requiring an entity to develop its own assumptions.

The following tables present the fair value hierarchy for Devereux's financial assets and liabilities measured at fair value on a recurring basis.

	Total	Level 1	Level 2	Level 3
June 30, 2019				
Cash and cash equivalents	**$ 12,133**	**$ 12,133**	**$ –**	**$ –**
Assets limited as to use and operating fund investments:				
Cash and cash equivalents	**$ 3,358**	**$ 3,358**	**$ –**	**$ –**
Equity mutual funds	**99,780**	**99,780**	**–**	**–**
REIT funds	**10,757**	**10,757**	**–**	**–**
Fixed-income mutual funds	**7,427**	**7,427**	**–**	**–**
Multi-asset funds	**17,578**	**17,578**	**–**	**–**
Corporate bonds	**2,866**	**–**	**2,866**	**–**
U.S. government and agency bonds	**17,146**	**–**	**17,146**	**–**
Total assets limited as to used and operating fund investments at fair value	**$ 158,912**	**$ 138,900**	**$ 20,012**	**$ –**
Beneficial interest in trusts held by third parties, net *(Note 7)*	**$ 7,597**	**$ –**	**$ –**	**$ 7,597**
Liabilities:				
Interest rate swap	**$ 343**	**$ –**	**$ 343**	**$ –**

(In Thousands)

5. Fair Value Measurements (continued)

	Total	Level 1	Level 2	Level 3
June 30, 2018				
Cash and cash equivalents	$ 7,985	$ 7,985	$ –	$ –
Assets limited as to use and operating fund investments:				
Cash and cash equivalents	$ 3,474	$ 3,474	$ –	$ –
Equity mutual funds	64,774	64,774	–	–
Commodity funds	8,414	8,414	–	–
REIT funds	4,604	4,604	–	–
Fixed-income mutual funds	7,710	7,710	–	–
Multi-asset funds	17,055	17,055	–	–
U.S. government and agency bonds	10,574	–	10,574	–
	116,605	$ 106,031	$ 10,574	$ –
Multi-asset fund measured at net asset value	40,165			
Total assets limited as to used and operating fund investments at fair value	$ 156,770			
Beneficial interest in trusts held by third parties, net *(Note 7)*	$ 7,424	$ –	$ –	$ 7,424
Liabilities:				
Interest rate swap	$ 42	$ –	$ 42	$ –

(In Thousands)

5. Fair Value Measurements (continued)

The following table sets forth the change in the fair value of financial instruments that are classified as Level 3:

Fair value balance, June 30, 2017	$	6,456
Additions		625
Distributions		–
Changes in fair value		343
Fair value balance, June 30, 2018		7,424
Additions		–
Distributions		–
Changes in fair value		**173**
Fair value balance, June 30, 2019	**$**	**7,597**

Devereux's Level 1 securities primarily consist of cash, money market funds, equity mutual funds, commodity funds, REIT funds, fixed-income mutual funds, and multi-asset funds. Devereux determines the estimated fair value for its Level 1 securities using quoted (unadjusted) prices for identical assets or liabilities in active markets. Devereux's Level 2 securities primarily consist of corporate and U.S. government and agency bonds. Devereux determines the estimated fair value for its Level 2 securities using quoted prices for similar assets or liabilities in active markets.

In accordance with ASC Subtopic 820-10, the multi-asset fund that is measured at fair value using the net asset value per share (or its equivalent) practical expedient has not been classified in the fair value hierarchy. The fair value amounts presented in the tables are to permit reconciliation of the fair value hierarchy to the amounts presented on the consolidated balance sheets.

The estimated value of the beneficial interest in trusts held by third parties is determined based on information provided by the trustee, including Devereux's proportional interest in the net assets of the trust. The assets held in trust consist primarily of cash equivalents and marketable securities. The fair value of the interest of trusts held by third parties is measured using the underlying value of the investments, as well as discounted cash flow analysis of the expected cash flow of the trusts, and is reported as Level 3.

(In Thousands)

5. Fair Value Measurements (continued)

The interest rate swap, which is classified as a Level 2 liability, is valued using present value techniques, including a discounted cash flow analysis on the expected cash flow of the derivative. This analysis reflects the contractual terms of the derivative, including the period to maturity, and uses observable market-based inputs, including interest rate curves.

6. Property and Equipment

	Estimated Useful Lives	**June 30 2019**	**June 30 2018**
Land		**$ 6,573**	$ 6,573
Land improvements	8–25 years	**27,281**	26,352
Buildings and improvements	5–40 years	**251,564**	240,863
Equipment	3–20 years	**68,653**	64,905
		354,071	338,693
Less accumulated depreciation		**245,753**	232,983
		108,318	105,710
Construction-in-progress		**3,885**	3,719
		$ 112,203	$ 109,429

Depreciation expense was $14,210 and $14,302 in 2019 and 2018, respectively.

(In Thousands)

7. Pledges Receivable and Deferred Gifts

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

	June 30	
	2019	**2018**
Pledges receivable and deferred gifts in:		
Less than one year	**$ 209**	$ 51
One to five years	**5,515**	237
	5,724	288
Less allowance for uncollectible accounts	**(285)**	(13)
Less discount to present value	**(411)**	(19)
Pledges receivable, net	**5,028**	256
Beneficial interest in trusts held by third parties, net	**7,597**	7,424
Total	**$ 12,625**	$ 7,680

The present value of the future cash flows of pledges receivable was determined using discount rates approximating 2.0% for 2019 and 2018.

Devereux periodically receives indications of an intention to give from individuals through the settlement of the individuals' estates. The anticipated value of these intended gifts has not been established, nor has it been recognized as an asset on the consolidated balance sheets, unless the gifts are irrevocable.

The beneficial interests in trusts are unconditionally designated for the benefit of Devereux upon the occurrence of some future event. The interests are recorded at fair value as represented by the third-party trustee.

(In Thousands)

8. Long-Term Debt

	June 30 2019	June 30 2018
$18,225 tax-exempt Chester County Health and Education Facilities Authority Revenue Bonds, Series of 2016 (the 2016 Pennsylvania Bonds)	**$ 16,180**	$ 17,210
3.20% to 6.22% mortgages payable monthly through October 2028, secured by the related properties, equipment, or revenue	**5,511**	6,877
$6,580 tax-exempt Chester County Health and Education Facilities Authority Revenue Bonds, Series of 2011 (the 2011 Pennsylvania Bonds)	**3,467**	3,876
$8,745 tax-exempt Chester County Health and Education Facilities Authority Revenue Bonds, Series of 2012 (the 2012 Pennsylvania Bonds)	**5,582**	6,137
$7,054 tax-exempt Colorado Health Facilities Authority Revenue Bonds, Series of 2012 (the 2012 Colorado Bonds)	**2,711**	3,438
$9,000 taxable borrowing from a bank (the 2013 Loan)	**5,744**	6,241
$5,000 taxable borrowing from a bank (the 2015 Loan)	**4,463**	4,596
Total long-term debt	**43,658**	48,375
Less current portion	**(3,546)**	(4,215)
Less deferred financing costs	**(716)**	(792)
Net original issue premium	**1,419**	1,678
Net long-term debt	**$ 40,815**	$ 45,046

In October 2016, Devereux issued the 2016 Pennsylvania Bonds to refinance previously issued bonds. The 2016 Pennsylvania Bonds were sold at an original issue premium of $2,233, which resulted in an effective interest rate of 2.74% over the life of the bonds. The 2016 Pennsylvania Bonds mature over a 15-year period.

8. Long-Term Debt (continued)

In February 2015, Devereux entered into an agreement with a bank to borrow $5,000 in fixed-rate debt (the 2015 Loan) to finance certain capital expenditures. The 2015 Loan matures over a 25-year period, and the bank has the option to put the loan to Devereux after 10 years (February 12, 2025). The interest rate is currently fixed at 4.214% for ten years, after which it will reset at the then current rate if the bank does not exercise its put option.

In July 2013, Devereux entered into an agreement with a bank to borrow $9,000 in variable-rate debt (the 2013 Loan) that was used to currently refund previously issued bonds and finance certain capital expenditures. The 2013 Loan, as amended, matures over a 15-year period; however, on July 1, 2025, the bank has the option to put the loan to Devereux. Concurrent with the 2013 Loan, Devereux entered into a 15-year interest rate swap with an original notional amount of $8,393 (current notional amount of $6,241) that effectively fixes the interest rate at 5.028%.

The 2012 Pennsylvania Bonds and 2012 Colorado Bonds were issued to refinance previously issued tax-exempt debt. All of the bonds were acquired by a financial institution. The bonds mature over a 15-year period, and the financial institution has an option to put the bonds after 7 years (original date of November 1, 2019). However, at certain advance dates, Devereux can request one-year extensions to the put option date. As a result of approved extensions, the current put option date is November 1, 2021. The 2012 Pennsylvania Bonds and 2012 Colorado Bonds bear interest at a fixed rate, subject to a rate reset after 7 years and 12 years if the bonds are not called by the financial institution.

The 2011 Pennsylvania Bonds were issued to refinance previously issued tax-exempt debt. All of the bonds were acquired by a financial institution. The 2011 Pennsylvania Bonds bear interest at a variable rate equal to 65.00% of the one-month London Interbank Offered Rate (LIBOR), plus a margin of 1.40%. The rate on the bonds at June 30, 2019 was 2.959%. The bonds mature over a 15½-year period, and the financial institution has an option to put the bonds after 7 years (original date of December 15, 2018). However, at certain advance dates, Devereux can request one-year extensions to the put option date. As a result of approved extensions, the current put option date is December 15, 2021.

8. Long-Term Debt (continued)

Devereux entered into a financing agreement (the Loan Agreement) with a bank providing up to an aggregate amount of $2,000 that expires on April 3, 2020. The loans are for the purpose of acquiring and renovating real property at various locations in the states of Pennsylvania and New Jersey, to be used as group homes for intellectually and developmentally disabled individuals. Each advance under the Loan Agreement will be considered a separate term loan and the maximum amount that can be advanced is 85% of the fair market value of the property acquired. The loans have a term of ten years, with principal paid in monthly installments based on a 25-year amortization period, and bear interest at the Federal Home Loan Bank (FHLB) rate plus a margin of 2.25%. The interest rate is reset after 5 years to the then current FHLB rate plus a margin of 2.25%. The loans will be secured by first mortgage liens on the properties financed. At June 30, 2019, there were no amounts outstanding.

All of the tax-exempt bonds and the 2013 and 2015 Loans were issued under a Master Trust Indenture (MTI) for which Devereux, HD Foundation, DCW, and DCW Foundation represent the obligated group and were issued to advance refund or refinance previously issued tax-exempt bonds and other debt; to finance certain capital expenditures; and to fund required debt service and reserve funds. They are secured by an interest in gross revenues, as defined.

Original issue premiums or discounts on bonds are amortized using the interest method over the term of the related debt.

Agreements related to the Revolving Credit Agreement (see Note 9) and the debt issued under the MTI contain financial covenants requiring Devereux to maintain debt service coverage and liquidity ratios. All such covenants were complied with as of and for the years ended June 30, 2019 and 2018.

(In Thousands)

8. Long-Term Debt (continued)

Other information relating to each of the bonds, all of which have serial and term components, is as follows:

	2016 Pennsylvania Bonds	2015 Loan	2013 Loan
Scheduled principal payments	November 1	Monthly	July 1
Year of final maturity	2031	2040	2028
Range of principal and/or sinking fund payments	\$100 to \$1,735	\$138 to \$308	\$521 to \$769
Interest payment dates	May 1 and November 1	Monthly	Monthly
Range of interest rates	3.00% to 5.00%	4.214%	5.028%

	2012 Pennsylvania Bonds	2012 Colorado Bonds	2011 Pennsylvania Bonds
Scheduled principal payments	November 1	November 1	May 1 and November 1
Year of final maturity	2027	2027	2027
Range of principal and/or sinking fund payments	\$568 to \$674	\$167 to \$761	\$411 to \$454
Interest payment dates	May 1 and November 1	May 1 and November 1	May 1 and November 1
Range of coupon interest rates	2.15%	2.28%	Variable

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

2020	\$ 3,546
2021	3,644
2022	6,010
2023	3,993
2024	3,511
Thereafter	22,954

Interest paid on all indebtedness amounted to \$2,278 and \$2,510 in 2019 and 2018, respectively.

9. Line of Credit

Devereux has a bank Revolving Credit Agreement (Revolver) with a maximum borrowing limit of $39,000, which is available for working capital and letters of credit. The Revolver expires November 30, 2019, although management expects to extend the Revolver beyond that date. The Revolver is secured by a parity lien on gross revenues as defined under the MTI (see Note 8). Interest on working capital loans accrues at the one-month LIBOR plus an applicable margin of 1.00%. At June 30, 2019 and 2018, no working capital loans were outstanding. At June 30, 2019, letters of credit aggregating $10,000 were used to secure deductibles under insurance policies (see Note 14). Fees on outstanding letters of credit accrue at 1.00% at June 30, 2019 and 2018. A commitment fee of 0.15% is paid on unused Revolver amounts.

10. Obligation to Provide Future Services and the Use of Facilities to Continuing Care Clients

Devereux is contractually obligated to provide care for life to certain clients. The obligation, which recognizes the future costs to be incurred under these continuing care contracts, was computed using the following assumptions: annual cost of care based on actual operating costs, life expectancy, an inflation factor of 4.75% of the average annual operating cost for both 2019 and 2018, a discount rate of 5.75% and 6.00% for 2019 and 2018, respectively, and a reduction for any supplemental payments, including social security which is assumed to increase 3.00% annually, received on behalf of the clients for both 2019 and 2018.

As of June 30, 2019, there were 15 individuals covered by continuing care contracts.

Devereux also recognizes the present value of certain arrangements with several continuing care residents under which Devereux is the beneficiary of the assets of trusts established on behalf of the residents.

(In Thousands)

10. Obligation to Provide Future Services and the Use of Facilities to Continuing Care Clients (continued)

The present value of the components of the obligation follows:

	June 30	
	2019	**2018**
Gross liability	**$ 14,771**	$ 15,703
Social Security and other benefits	**(7,863)**	(7,626)
Future trust interests	**(784)**	(804)
	$ 6,124	$ 7,273

11. Retirement Plan

Devereux has a defined contribution retirement plan covering all eligible employees under which the Teachers Insurance and Annuity Association (TIAA) serves as Trustee. All employees are eligible to make tax deferred contributions immediately after hire. To be eligible for an employer contribution, an employee hired before January 1, 2019 must have completed two years of service, work a minimum of 1,000 hours annually, and be actively employed at the end of the plan year (December 31). Employer contributions to the plan for this group are generally based on 5% of the employee's compensation, plus a match of employee contributions up to 2% of compensation, and are made annually each January. Employees hired on or after January 1, 2019, upon meeting the plan's eligibility requirements, will receive employer contributions equal to 3% of the employee's compensation upon completion of one of service. Matching contributions for this group will be discretionary. Contributions are credited to individual annuity contracts owned by each participant and are charged to expense when earned. Contribution expense was $8,990 and $8,729 in 2019 and 2018, respectively.

(In Thousands)

12. Net Assets with Donor Restrictions

Net assets with donor restrictions are as follows:

	June 30	
	2019	**2018**
Purchase of property and equipment	**$ 701**	$ 771
Behavioral health care and education services	**4,995**	4,585
Research	**1,445**	1,313
Other	**2,307**	2,345
Pledges receivable and deferred gifts	**12,625**	7,680
Permanent endowments – to be maintained in perpetuity	**6,672**	6,888
	$ 28,745	$ 23,582

During 2019 and 2018, $1,474 and $1,507, respectively, of net assets with donor restrictions were released from restrictions for operations, of which $249 and $71, respectively, related to the collection of previous pledges which did not include a purpose restriction. These amounts are classified as a component of gifts and bequests without restrictions on the consolidated statements of operations and changes in net assets.

Activity in Devereux's permanent endowments is as follows:

	June 30	
	2019	**2018**
Endowment balance at beginning of year	**$ 6,888**	$ 6,846
Investment income return:		
Investment income	**105**	100
Realized and unrealized gains	**110**	370
Total investment income return	**215**	470
Contributions	**2**	3
Appropriation of endowment assets for intended purpose	**(433)**	(431)
Endowment balance at end of year	**$ 6,672**	$ 6,888

(In Thousands)

13. Functional Expenses

Devereux and its members' primary mission is to provide behavioral health care, education, and child welfare services to its clients. Expenses related to providing these services included on the consolidated statements of operations and changes in net assets are as follows:

	Program Services	General and Administrative	Fundraising	Total
Year ended June 30, 2019				
Salaries and wages	**$ 247,052**	**$ 42,279**	**$ 1,124**	**$ 290,455**
Employee benefits	**67,184**	**10,832**	**260**	**78,276**
Food	**7,605**	**271**	**8**	**7,884**
Purchased services	**36,088**	**2,949**	**283**	**39,320**
Supplies	**7,517**	**334**	**2**	**7,853**
Plant operation and maintenance	**23,361**	**3,827**	**132**	**27,320**
Depreciation and amortization	**12,356**	**1,923**	**7**	**14,286**
Interest	**2,245**	**–**	**9**	**2,254**
Insurance	**11,330**	**258**	**–**	**11,588**
Other	**10,472**	**849**	**144**	**11,465**
	$ 425,210	**$ 63,522**	**$ 1,969**	**$ 490,701**
Year ended June 30, 2018				
Salaries and wages	$ 233,078	$ 41,784	$ 1,253	$ 276,115
Employee benefits	71,009	11,152	272	82,433
Food	7,619	235	11	7,865
Purchased services	34,421	2,965	67	37,453
Supplies	7,459	370	7	7,836
Plant operation and maintenance	23,063	4,067	88	27,218
Provision for bad debts	2,546	–	–	2,546
Depreciation and amortization	12,421	1,956	8	14,385
Interest	2,481	–	10	2,491
Insurance	17,116	208	1	17,325
Other	10,426	495	183	11,104
	$ 421,639	$ 63,232	$ 1,900	$ 486,771

(In Thousands)

14. Commitments and Contingencies

Operating Leases

Devereux leases various equipment and facilities under operating leases expiring at various dates through 2027. Total rent expense for the years ended June 30, 2019 and 2018 was $9,383 and $9,253, respectively. The following is a schedule by year of future minimum lease payments under operating leases as of June 30, 2019 that have initial or remaining lease terms in excess of one year:

Year ending June 30:		
2020	$	8,223
2021		6,298
2022		4,881
2023		3,406
2024		2,463
Thereafter		4,291
	$	29,562

Workers' Compensation

Devereux maintained workers' compensation insurance with a per-claim deductible of $750 for 2019 and 2018. Due to this level of retention, Devereux maintains $886 of cash on deposit with its insurers for the payment of future claims, which is included in operating fund investments on the consolidated balance sheets. Additionally, Devereux was required to post letters of credit of $10,000 and $11,075 as collateral for its obligations as of June 30, 2019 and 2018, respectively (see Note 9). Based upon historical loss experience, management determined that a $10,559 and $11,883 liability for the estimated retention and costs of claims not settled as of June 30, 2019 and 2018, respectively, be recorded as a component of reserves under insurance programs and other liabilities on the consolidated balance sheets.

14. Commitments and Contingencies (continued)

Professional and General Liability

Devereux is insured under a claims-made policy for professional liability and an occurrence policy for general liability. Devereux retained $8,000 for 2019 and 2018 in aggregate deductibles ($4,000 for any individual claims) related to the combination of professional and general liability coverage. Due to this level of retention, Devereux is required to post $8,000 of aggregate collateral, which was met with an insurance trust holding U.S. government and agency and corporate bonds valued at $9,374 as of June 30, 2019. Based upon historical loss experience, management determined that a $20,634 and $17,200 liability for the estimated retention and cost of claims and incidents not settled and claims incurred but not reported as of June 30, 2019 and 2018, respectively, be recorded as a component of reserves under insurance programs and other liabilities on the consolidated balance sheets. Devereux plans to continue to obtain adequate professional and general liability insurance. For the year beginning July 1, 2019, the per claim deductible was reduced to $2,000 and the aggregate deductible to $6,000.

Litigation

Devereux and DCW are contingently liable in connection with certain claims and contracts arising in the normal course of their activities. After consultation with legal counsel, management believes these matters will be resolved without a material adverse effect on Devereux's future financial position or results from operations.

Devereux is not a party to, nor are any of its properties the subject of, any material, pending legal proceedings other than ordinary, routine litigation incidental to the business.

Florida Single Audit

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

Schedule of Expenditures of State Financial Assistance

Year Ended June 30, 2019

State Project Name	Contracts	CSFA Number	Total Florida State Expenditures
Department of Children & Families	GJ504	60.138	$ 1,200,000
Total 60.138: Sexually Exploited Children			1,200,000
Eckerd	ECA-C6-RA-DFl-FY19	60.183	77,171
Community Partnership for Children	D12-18-DEV-CPA, D12-18-DEV-DD, D12-18-DEV-FBSS	60.183	209,375
Children's Network of Southwest Florida	DBN03	60.183	47,037
Total 60.183: Purchase of Therapeutic Services for Children			333,583
Heartland for Children	ODXMS1	60.074	41,461
Eckerd – Circuit 13	ECA-C6-RA-DFl-FY19	60.074	260,502
Eckerd	ECA-C6-RA-DFl-FY19	60.074	82,168
Kids Central	C1718-PRV-D031	60.074	11,596
Community Based Care of Central Florida	OROS003-1721	60.074	157,772
Community Based Care of Central Florida	OROS003-1721 (Residential)	60.074	111,393
Community Partnership for Children	D12-18-DEV-CPA, D12-18-DEV-DD, D12-18-DEV-FBSS	60.074	37,092
Children's Network of Southwest Florida	DBN03	60.074	360,165
Total 60.074: Out of Home Care Support			1,062,149
Heartland for Children	ODXMS1	60.075	29,849
Kids Central	C1718-DRV-D031	60.075	2,333
Embrace Families – Community Based Care of Central Florida	OROS003-1721 (Residential)	60.075	1,348
Total 60.075: In Home Care Support			33,530
Community Based Care of Central Florida	OROS003-1721	60.141	7,130
Total 60.141: Extended Foster Care			7,130
Total Expenditures of State Financial Assistance			$ 2,636,392

See accompanying notes to the Schedule of Expenditures of State Financial Assistance.

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

Notes to the Schedule of Expenditures of State Financial Assistance

Year Ended June 30, 2019

1. Basis of Presentation

The accompanying Schedule of Expenditures of State Financial Assistance includes the Florida state financial assistance project activity of The Devereux Foundation and Controlled Entities (Devereux) and is presented on the accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of Section 215.97, *Florida Statutes,* and Chapter 10.650, *Rules of the Auditor General*. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the consolidated financial statements. The schedule is not intended to and does not present the financial position, operations, changes in net assets, or cash flows of Devereux.

2. Contingency

Project expenditures are subject to audit and adjustment. If any expenditure were to be disallowed by the grantor agency as a result of such an audit, any claim for reimbursement to the grantor agency would become a liability of Devereux. In the opinion of management, all state financial assistance project expenditures included on the accompanying schedule are in compliance with the terms of the project agreements and applicable state laws and regulations.

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Ernst & Young LLP
99 Wood Avenue South
Metropark
P.O. Box 751
Iselin, NJ 08830-0471

Tel: +1 732 516 4200
Fax: +1 732 516 4429
ey.com

Report of Independent Auditors on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of the Financial Statements Performed in Accordance With *Government Auditing Standards*

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

We have audited, in accordance with auditing standards generally accepted in the United States and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of The Devereux Foundation and Controlled Entities d/b/a Devereux Advanced Behavioral Health (Devereux), which comprise the consolidated balance sheet as of June 30, 2019, and the related consolidated statements of operations and changes in net assets and cash flows for the year then ended, and the related notes to the consolidated financial statements, and have issued our report thereon dated September 26, 2019.

Internal Control Over Financial Reporting

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

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

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

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Compliance and Other Matters

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

Purpose of This Report

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

Ernst & Young LLP

September 26, 2019

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Ernst & Young LLP
99 Wood Avenue South
Metropark
P.O. Box 751
Iselin, NJ 08830-0471

Tel: +1 732 516 4200
Fax: +1 732 516 4429
ey.com

Report of Independent Auditors on Compliance for Each Major State Financial Assistance Project and Report on Internal Control Over Compliance Required by Section 215.97, *Florida Statutes*, and Chapter 10.650, *Rules of the Auditor General*

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

Report on Compliance for Each Major State Financial Assistance Project

We have audited The Devereux Foundation and Controlled Entities d/b/a Devereux Advanced Behavioral Health's (Devereux) compliance with the types of compliance requirements described in the Executive Office of the Governor's State Projects Compliance Supplement that could have a direct and material effect on each of Devereux's major state financial assistance projects for the year ended June 30, 2019. Devereux's major state financial assistance projects are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with the requirements of state statutes, regulations and the terms and conditions of its state financial assistance projects.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of Devereux's major state financial assistance projects based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States; the standards applicable to financial audits contained in *Government Auditing Standards,* issued by the Comptroller General of the United States; and the audit requirements of Section 215.97, *Florida Statutes;* and Chapter 10.650, *Rules of the Auditor General.* Those standards and Section 215.97, *Florida Statutes,* and Chapter 10.650, *Rules of the Auditor General,* require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major state financial assistance project occurred. An audit includes examining, on a test basis, evidence about Devereux's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major state financial assistance project. However, our audit does not provide a legal determination of Devereux's compliance.

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Opinion on Each Major State Financial Assistance Project

In our opinion, Devereux complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major state financial assistance projects for the year ended June 30, 2019.

Report on Internal Control Over Compliance

Management of Devereux is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered Devereux's internal control over compliance with the types of requirements that could have a direct and material effect on each major state financial assistance project to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major state financial assistance project and to test and report on internal control over compliance in accordance with Section 215.97, *Florida Statutes,* and Chapter 10.650, *Rules of the Auditor General*, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of Devereux's internal control over compliance.

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

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

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the Executive Office of the Governor's State Projects Compliance Supplement. Accordingly, this report is not suitable for any other purpose.

Ernst & Young LLP

December 20, 2019

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

Schedule of Findings and Questioned Costs

Year Ended June 30, 2019

Part I – Summary of Auditor's Results

Financial Statements

Type of report the auditor issued on whether the financial statements audited were prepared in accordance with GAAP:	Unmodified, with an emphasis-of-matter paragraph on changes in accounting

Internal control over financial reporting:				
Material weakness(es) identified?	______	Yes	✓	No
Significant deficiency(ies) identified?	______	Yes	✓	None reported
Non-compliance material to financial statements noted?	______	Yes	✓	No

Florida State Financial Assistance Projects

Internal control over major Florida state financial assistance projects:				
Material weakness(es) identified?	______	Yes	✓	No
Significant deficiency(ies) identified?	______	Yes	✓	None reported

Type of auditor's report issued on compliance for major Florida state financial assistance projects:	Unmodified

Any audit findings disclosed that are required to be reported in accordance with Section 215.97, *Florida Statutes*, and Chapter 10.650, *Rules of the Auditor General*?	______	Yes	✓	No

Identification of Major Florida State Financial Assistance Projects

CSFA Numbers	Name of Florida State Financial Assistance Project
60.138	Sexually Exploited Children
60.183	Purchase of Therapeutic Services for Children

Dollar threshold used to distinguish between Type A and Type B programs:	$300,000

Part II – Financial Statement Findings

None noted.

Part III – Florida State Financial Assistance Project Findings and Questioned Costs

None noted.

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