

# **The Children's Home Society of Florida and Subsidiaries**

Consolidated Financial Report  
June 30, 2017 and 2016

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## Independent Auditor's Report

To the Audit Committee  
The Children's Home Society of Florida

### Report on the Financial Statements

We have audited the accompanying consolidated financial statements of The Children's Home Society of Florida and its subsidiaries, which comprise the consolidated statements of financial position as of June 30, 2017 and 2016, and the related consolidated statements of activities, functional expenses and cash flows for the years then ended, and the related notes to the consolidated financial statements.

### Management's Responsibility for the Financial Statements

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

### Auditor's Responsibility

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

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

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

### Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of The Children's Home Society of Florida and its subsidiaries as of June 30, 2017 and 2016, and the changes in their net assets and their cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

**Other Reporting Required by *Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report dated October 31, 2017 on our consideration of The Children's Home Society of Florida and its subsidiaries' internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of The Children's Home Society of Florida and its subsidiaries' 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 The Children's Home Society of Florida and its subsidiaries' internal control over financial reporting and compliance.

*RSM US LLP*

Orlando, Florida  
October 31, 2017

The Children's Home Society of Florida and Subsidiaries

Consolidated Statements of Financial Position  
June 30, 2017 and 2016

	2017	2016
<b>Assets</b>		
Cash and cash equivalents	\$ 3,462,671	\$ 4,334,793
Receivables, net	14,338,033	13,561,792
Prepaid expenses and other assets	2,342,310	2,338,178
Investments	13,158,581	11,891,646
Beneficial interests	23,594,519	22,168,410
Property and equipment, net	32,254,602	34,879,857
<b>Total assets</b>	<b>\$ 89,150,716</b>	<b>\$ 89,174,676</b>
<b>Liabilities and Net Assets</b>		
Liabilities		
Accounts payable	\$ 1,330,405	\$ 1,473,077
Accrued expenses	7,438,453	8,295,562
Deferred revenue and other liabilities	738,199	1,158,300
Pension liability	7,631,823	11,184,295
Held in custody for account of others	987,420	220,695
Fair value of interest rate swap	-	4,433,060
Debt	18,810,319	16,069,610
<b>Total liabilities</b>	<b>36,936,619</b>	<b>42,834,599</b>
Commitments and Contingencies (Notes 7, 9, 10 and 11)		
Net Assets		
Unrestricted	29,803,698	24,171,667
Temporarily restricted	12,625,035	12,411,920
Permanently restricted	9,785,364	9,756,490
<b>Total net assets</b>	<b>52,214,097</b>	<b>46,340,077</b>
<b>Total liabilities and net assets</b>	<b>\$ 89,150,716</b>	<b>\$ 89,174,676</b>

See notes to consolidated financial statements.

The Children's Home Society of Florida and Subsidiaries

Consolidated Statements of Activities

Year Ended June 30, 2017

	2017			Total
	Unrestricted	Temporarily Restricted	Permanently Restricted	
Operating Public Support, Revenues and Other Support				
Operating public support:				
United Way	\$ 1,732,600	\$ -	\$ -	\$ 1,732,600
Bequests, contributions and special events	9,689,018	57,389	-	9,746,407
<b>Total operating public support</b>	<b>11,421,618</b>	<b>57,389</b>	<b>-</b>	<b>11,479,007</b>
Revenue from service contracts	102,863,260	-	-	102,863,260
Adoptive and other service fees	483,826	-	-	483,826
Investment income	445,477	-	-	445,477
Other revenue	1,150,723	-	-	1,150,723
<b>Total operating public support and revenues</b>	<b>116,364,904</b>	<b>57,389</b>	<b>-</b>	<b>116,422,293</b>
Net assets released from restrictions by satisfaction of program restrictions	2,425,629	(2,425,629)	-	-
<b>Total operating public support, revenues and other support</b>	<b>118,790,533</b>	<b>(2,368,240)</b>	<b>-</b>	<b>116,422,293</b>
Operating Expenses				
Program services	99,843,917	-	-	99,843,917
Supporting services:				
Management and general	14,778,584	-	-	14,778,584
Fundraising	4,054,962	-	-	4,054,962
<b>Total supporting services</b>	<b>18,833,546</b>	<b>-</b>	<b>-</b>	<b>18,833,546</b>
<b>Total operating expenses</b>	<b>118,677,463</b>	<b>-</b>	<b>-</b>	<b>118,677,463</b>
<b>Decrease in net assets from operations</b>	<b>113,070</b>	<b>(2,368,240)</b>	<b>-</b>	<b>(2,255,170)</b>
Other Changes				
Change in beneficial interests	-	2,581,355	28,874	2,610,229
Net realized and unrealized gains on investments	1,075,849	-	-	1,075,849
Gain on interest rate swap	1,168,960	-	-	1,168,960
Pension related changes other than net periodic benefit cost	3,274,152	-	-	3,274,152
<b>Increase in other changes</b>	<b>5,518,961</b>	<b>2,581,355</b>	<b>28,874</b>	<b>8,129,190</b>
<b>Increase in net assets</b>	<b>5,632,031</b>	<b>213,115</b>	<b>28,874</b>	<b>5,874,020</b>
Net Assets				
Beginning	24,171,667	12,411,920	9,756,490	46,340,077
Ending	<b>\$ 29,803,698</b>	<b>\$ 12,625,035</b>	<b>\$ 9,785,364</b>	<b>\$ 52,214,097</b>

(Continued)

The Children's Home Society of Florida and Subsidiaries

Consolidated Statements of Activities (Continued)

Year Ended June 30, 2016

	2016			Total
	Unrestricted	Temporarily Restricted	Permanently Restricted	
Operating Public Support, Revenues and Other Support				
Operating public support:				
United Way	\$ 1,694,742	\$ -	\$ -	\$ 1,694,742
Bequests, contributions and special events	9,984,406	179,229	-	10,163,635
<b>Total operating public support</b>	<b>11,679,148</b>	<b>179,229</b>	<b>-</b>	<b>11,858,377</b>
Revenue from service contracts	107,328,969	-	-	107,328,969
Adoptive and other service fees	694,998	-	-	694,998
Investment income	478,248	-	-	478,248
Other revenue	1,247,184	-	-	1,247,184
<b>Total operating public support and revenues</b>	<b>121,428,547</b>	<b>179,229</b>	<b>-</b>	<b>121,607,776</b>
Net assets released from restrictions by satisfaction of program restrictions	1,251,696	(1,251,696)	-	-
<b>Total operating public support, revenues and other support</b>	<b>122,680,243</b>	<b>(1,072,467)</b>	<b>-</b>	<b>121,607,776</b>
Operating Expenses				
Program services	105,446,816	-	-	105,446,816
Supporting services:				
Management and general	16,723,502	-	-	16,723,502
Fundraising	5,078,733	-	-	5,078,733
<b>Total supporting services</b>	<b>21,802,235</b>	<b>-</b>	<b>-</b>	<b>21,802,235</b>
<b>Total operating expenses</b>	<b>127,249,051</b>	<b>-</b>	<b>-</b>	<b>127,249,051</b>
<b>Decrease in net assets from operations</b>	<b>(4,568,808)</b>	<b>(1,072,467)</b>	<b>-</b>	<b>(5,641,275)</b>
Other Changes				
Change in beneficial interests	-	155,924	328,877	484,801
Net realized and unrealized losses on investments	(462,149)	-	-	(462,149)
Loss on interest rate swap	(1,125,409)	-	-	(1,125,409)
Pension related changes other than net periodic benefit cost	(2,313,970)	-	-	(2,313,970)
<b>(Decrease) increase in other changes</b>	<b>(3,901,528)</b>	<b>155,924</b>	<b>328,877</b>	<b>(3,416,727)</b>
<b>(Decrease) increase in net assets</b>	<b>(8,470,336)</b>	<b>(916,543)</b>	<b>328,877</b>	<b>(9,058,002)</b>
Net Assets				
Beginning	32,642,003	13,328,463	9,427,613	55,398,079
Ending	\$ 24,171,667	\$ 12,411,920	\$ 9,756,490	\$ 46,340,077

See notes to consolidated financial statements.

The Children's Home Society of Florida and Subsidiaries

Consolidated Statements of Functional Expenses

Year Ended June 30, 2017

	Program Services						
	Training	Independent Living For Youth	Family Life Education	Adoption and Inter-Country Adoption	Pregnancy Counseling/ Support	Home Visitor Service	Early Intervention Services
Salaries	\$ 583,285	\$ 913,287	\$ 891,623	\$ 1,863,958	\$ 41,793	\$ 5,895,943	\$ 840,890
Employee benefits	96,536	135,918	143,544	302,823	6,791	925,603	136,990
Payroll taxes and other	47,270	81,816	80,490	165,939	3,678	546,314	74,138
<b>Total salaries and related expenses</b>	<b>727,091</b>	<b>1,131,021</b>	<b>1,115,657</b>	<b>2,332,720</b>	<b>52,262</b>	<b>7,367,860</b>	<b>1,052,018</b>
Professional fees	387,892	4,024	167,864	81,690	119	33,792	2,643
Supplies	5,938	6,255	10,637	15,592	244	48,980	6,792
Telephone	51,493	29,099	29,465	43,082	719	145,785	23,276
Postage and shipping	201	2,526	2,434	4,965	62	9,921	5,325
Occupancy	42,746	95,179	110,163	197,235	9,496	511,407	162,327
Rental and maintenance of equipment	15,245	13,227	46,612	17,611	151	105,015	5,829
Printing and publications	1,060	919	9,256	1,247	11	5,910	1,032
Travel	10,844	89,936	58,117	113,065	1,604	509,952	40,434
Conferences, conventions and meetings	6,257	4,765	22,584	7,009	125	15,833	5,605
Specific assistance to individuals	6,783	57,567	50,763	61,208	4	125,084	1,305,060
Membership dues	791	1,431	12,171	3,729	53	36,479	1,264
Interest	-	-	-	-	-	-	-
Insurance	5,791	13,528	12,122	28,266	582	79,056	10,865
Provision for bad debt	-	-	250	-	-	25,527	-
Contributed goods	16,750	12,892	46,054	56,467	2,507	594,511	14,995
Other	3,753	4,635	188,072	14,441	26	28,250	3,758
<b>Total before depreciation and amortization</b>	<b>555,544</b>	<b>335,983</b>	<b>766,564</b>	<b>645,607</b>	<b>15,703</b>	<b>2,275,502</b>	<b>1,589,205</b>
Depreciation and amortization	12,347	37,405	54,030	18,553	11	24,899	3,735
<b>Total expenses</b>	<b>\$ 1,294,982</b>	<b>\$ 1,504,409</b>	<b>\$ 1,936,251</b>	<b>\$ 2,996,880</b>	<b>\$ 67,976</b>	<b>\$ 9,668,261</b>	<b>\$ 2,644,958</b>

(Continued)

The Children's Home Society of Florida and Subsidiaries

Consolidated Statements of Functional Expenses (Continued)

Year Ended June 30, 2017

	Program Services						
	Daycare	Case Management/ Development Services	Case Management/ Mental Health	Home-Based Family Centered Casework	Homemaker	Intensive Family Preservation	Emergency Shelter/ Runaway
Salaries	\$ 364,702	\$ 20,514,783	\$ 6,422,703	\$ 503,860	\$ 596,549	\$ 2,270,062	\$ 2,354,125
Employee benefits	15,848	3,216,600	1,020,822	80,500	96,340	372,274	372,212
Payroll taxes and other	35,686	1,885,380	592,254	45,714	54,210	210,856	218,313
<b>Total salaries and related expenses</b>	<b>416,236</b>	<b>25,616,763</b>	<b>8,035,779</b>	<b>630,074</b>	<b>747,099</b>	<b>2,853,192</b>	<b>2,944,650</b>
Professional fees	3,669	729,548	132,466	2,640	1,501	10,058	54,718
Supplies	1,632	116,858	66,809	3,698	2,549	10,035	21,503
Telephone	10,046	301,268	143,130	10,727	13,100	40,173	60,597
Postage and shipping	454	24,903	6,108	232	1,794	1,671	2,481
Occupancy	45,917	708,220	570,936	53,073	21,805	242,742	263,795
Rental and maintenance of equipment	2,935	113,034	87,336	2,322	1,162	12,704	43,507
Printing and publications	413	9,706	5,667	1,051	43	192	1,388
Travel	11,748	1,925,209	258,036	23,752	29,541	122,242	179,185
Conferences, conventions and meetings	781	38,880	31,878	161	895	193	4,824
Specific assistance to individuals	57,020	1,278,019	425,543	37,880	323	42,507	199,257
Membership dues	765	35,095	26,219	3,787	779	3,443	21,505
Interest	-	-	-	34	-	-	-
Insurance	6,352	482,225	77,911	8,736	6,927	25,806	45,628
Provision for bad debt	-	2,107	10,548	-	-	256	432
Contributed goods	-	118,122	58,835	4,955	1,429	45,112	3,953
Other	7,105	124,054	18,401	2,025	1,554	5,982	6,251
<b>Total before depreciation and amortization</b>	<b>148,837</b>	<b>6,007,248</b>	<b>1,919,823</b>	<b>155,073</b>	<b>83,402</b>	<b>563,116</b>	<b>909,024</b>
Depreciation and amortization	2,723	31,199	80,743	3,293	691	7,501	58,960
<b>Total expenses</b>	<b>\$ 567,796</b>	<b>\$ 31,655,210</b>	<b>\$ 10,036,345</b>	<b>\$ 788,440</b>	<b>\$ 831,192</b>	<b>\$ 3,423,809</b>	<b>\$ 3,912,634</b>

(Continued)

The Children's Home Society of Florida and Subsidiaries

Consolidated Statements of Functional Expenses (Continued)

Year Ended June 30, 2017

	Program Services				Total Program Services	Supporting Services			Total Functional Expenses
	Foster Care Services	Family Visitation Center	Group Care	Community Organization		Management and General	Fund Raising	Total Supporting Services	
Salaries	\$ 8,407,114	\$ 481,452	\$ 3,287,446	\$ 4,304,263	\$ 60,537,838	\$ 7,119,390	\$ 1,748,528	\$ 8,867,918	\$ 69,405,756
Employee benefits	1,289,952	76,472	513,874	679,836	9,482,935	830,433	280,115	1,110,548	10,593,483
Payroll taxes and other	768,547	44,303	303,878	380,443	5,539,229	512,208	136,029	648,237	6,187,466
<b>Total salaries and related expenses</b>	<b>10,465,613</b>	<b>602,227</b>	<b>4,105,198</b>	<b>5,364,542</b>	<b>75,560,002</b>	<b>8,462,031</b>	<b>2,164,672</b>	<b>10,626,703</b>	<b>86,186,705</b>
Professional fees	207,378	9,562	26,726	140,253	1,996,543	1,469,079	427,567	1,896,646	3,893,189
Supplies	45,523	6,867	23,404	53,233	446,549	43,362	18,065	61,427	507,976
Telephone	103,903	18,065	94,449	91,482	1,209,859	565,981	90,274	656,255	1,866,114
Postage and shipping	10,303	523	4,859	9,833	88,595	18,929	19,341	38,270	126,865
Occupancy	375,499	94,187	583,191	348,430	4,436,348	514,581	96,723	611,304	5,047,652
Rental and maintenance of equipment	115,382	4,220	75,296	97,616	759,204	232,998	22,919	255,917	1,015,121
Printing and publications	33,166	26	1,562	56,470	129,119	19,294	50,723	70,017	199,136
Travel	751,097	28,761	311,936	245,215	4,710,674	400,673	70,285	470,958	5,181,632
Conferences, conventions and meetings	110,563	229	5,953	60,120	316,655	53,236	9,054	62,290	378,945
Specific assistance to individuals	1,811,764	2,706	532,776	184,513	6,178,777	10,037	121,874	131,911	6,310,688
Membership dues	17,111	796	5,155	11,217	181,790	105,222	6,670	111,892	293,682
Interest	-	-	-	29	63	540,647	64	540,711	540,774
Insurance	171,210	7,433	70,087	56,796	1,109,321	46,751	13,075	59,826	1,169,147
Provision for bad debt	9,074	-	7,428	6,211	61,833	446,634	-	446,634	508,467
Contributed goods	49,880	9,177	99,525	139,999	1,275,163	3,973	457,220	461,193	1,736,356
Other	90,852	2,801	60,965	177,320	740,245	29,216	476,551	505,767	1,246,012
<b>Total before depreciation and amortization</b>	<b>3,902,705</b>	<b>185,353</b>	<b>1,903,312</b>	<b>1,678,737</b>	<b>23,640,738</b>	<b>4,500,613</b>	<b>1,880,405</b>	<b>6,381,018</b>	<b>30,021,756</b>
Depreciation and amortization	78,085	5,591	154,264	69,147	643,177	1,815,940	9,885	1,825,825	2,469,002
<b>Total expenses</b>	<b>\$ 14,446,403</b>	<b>\$ 793,171</b>	<b>\$ 6,162,774</b>	<b>\$ 7,112,426</b>	<b>\$ 99,843,917</b>	<b>\$ 14,778,584</b>	<b>\$ 4,054,962</b>	<b>\$ 18,833,546</b>	<b>\$ 118,677,463</b>

See notes to consolidated financial statements.

The Children's Home Society of Florida and Subsidiaries

Consolidated Statements of Functional Expenses

Year Ended June 30, 2016

	Program Services						
	Training	Independent Living For Youth	Family Life Education	Adoption and Inter-Country Adoption	Pregnancy Counseling/ Support	Home Visitor Service	Early Intervention Services
Salaries	\$ 691,655	\$ 1,158,401	\$ 835,537	\$ 2,830,573	\$ 42,723	\$ 5,621,460	\$ 913,737
Employee benefits	112,121	173,484	122,518	434,710	6,754	834,065	142,342
Payroll taxes and other	53,759	103,998	73,045	249,530	3,606	497,969	79,534
<b>Total salaries and related expenses</b>	<b>857,535</b>	<b>1,435,883</b>	<b>1,031,100</b>	<b>3,514,813</b>	<b>53,083</b>	<b>6,953,494</b>	<b>1,135,613</b>
Professional fees	318,866	4,913	147,443	61,559	149	32,569	6,740
Supplies	10,221	8,457	14,287	21,750	281	49,550	6,454
Telephone	26,705	31,291	24,496	54,391	833	126,745	25,436
Postage and shipping	100	6,566	1,644	5,493	88	7,361	5,246
Occupancy	41,251	114,331	90,408	232,923	10,269	413,834	134,650
Rental and maintenance of equipment	4,013	9,384	26,284	21,363	189	136,851	6,261
Printing and publications	10,135	508	8,703	3,040	-	6,060	336
Travel	28,233	98,454	46,327	179,862	1,579	480,280	42,693
Conferences, conventions and meetings	5,948	3,319	4,017	6,130	62	15,038	2,204
Specific assistance to individuals	33,722	99,530	72,139	67,237	567	83,258	1,093,786
Membership dues	772	1,544	1,439	5,924	55	28,159	1,289
Interest	-	-	-	-	-	-	-
Insurance	5,196	15,372	10,210	44,986	600	61,687	10,645
Provision for bad debt	-	-	-	-	-	219	-
Contributed goods	-	27,984	65,775	107,071	2,191	545,420	6,821
Other	15,068	19,922	245,815	18,985	38	33,044	3,818
<b>Total before depreciation and amortization</b>	<b>500,230</b>	<b>441,575</b>	<b>758,987</b>	<b>830,714</b>	<b>16,901</b>	<b>2,020,075</b>	<b>1,346,379</b>
Depreciation and amortization	11,359	40,430	36,732	16,159	24	24,190	5,317
<b>Total expenses</b>	<b>\$ 1,369,124</b>	<b>\$ 1,917,888</b>	<b>\$ 1,826,819</b>	<b>\$ 4,361,686</b>	<b>\$ 70,008</b>	<b>\$ 8,997,759</b>	<b>\$ 2,487,309</b>

(Continued)

The Children's Home Society of Florida and Subsidiaries

Consolidated Statements of Functional Expenses (Continued)

Year Ended June 30, 2016

	Program Services						
	Daycare	Case Management/ Development Services	Case Management/ Mental Health	Home-Based Family Centered Casework	Homemaker	Intensive Family Preservation	Emergency Shelter/ Runaway
Salaries	\$ 414,283	\$ 20,802,560	\$ 10,643,017	\$ 546,453	\$ 582,754	\$ 2,715,589	\$ 2,426,748
Employee benefits	12,254	3,099,943	1,587,637	85,306	93,278	415,528	353,739
Payroll taxes and other	40,558	1,842,577	943,114	47,669	51,970	241,872	218,339
<b>Total salaries and related expenses</b>	<b>467,095</b>	<b>25,745,080</b>	<b>13,173,768</b>	<b>679,428</b>	<b>728,002</b>	<b>3,372,989</b>	<b>2,998,826</b>
Professional fees	2,971	776,785	138,715	2,169	1,574	10,687	20,687
Supplies	1,740	125,281	69,327	4,289	3,795	15,311	21,339
Telephone	11,466	324,978	278,562	12,100	13,636	50,015	50,996
Postage and shipping	110	29,222	9,299	510	1,459	2,005	1,624
Occupancy	38,987	653,747	1,122,881	54,822	24,511	279,439	296,412
Rental and maintenance of equipment	1,901	82,389	100,917	22,170	2,191	27,759	24,037
Printing and publications	350	9,669	6,037	1,849	51	1,033	1,399
Travel	11,869	1,956,073	499,633	29,397	28,848	180,723	145,679
Conferences, conventions and meetings	444	40,170	14,225	3,075	249	6,988	4,094
Specific assistance to individuals	61,519	1,244,818	397,857	15,805	644	57,669	210,572
Membership dues	575	31,202	28,141	4,608	735	2,611	12,833
Interest	-	-	-	-	-	-	-
Insurance	5,443	406,627	156,643	7,495	6,836	29,127	41,169
Provision for bad debt	-	62,290	12,773	-	-	233	96
Contributed goods	-	380,697	145,439	11,972	2,964	68,256	42,850
Other	8,186	420,567	79,619	2,113	1,489	7,180	66,531
<b>Total before depreciation and amortization</b>	<b>145,561</b>	<b>6,544,515</b>	<b>3,060,068</b>	<b>172,374</b>	<b>88,982</b>	<b>739,036</b>	<b>940,318</b>
Depreciation and amortization	2,403	38,072	82,963	3,209	920	12,257	50,638
<b>Total expenses</b>	<b>\$ 615,059</b>	<b>\$ 32,327,667</b>	<b>\$ 16,316,799</b>	<b>\$ 855,011</b>	<b>\$ 817,904</b>	<b>\$ 4,124,282</b>	<b>\$ 3,989,782</b>

(Continued)

The Children's Home Society of Florida and Subsidiaries

Consolidated Statements of Functional Expenses (Continued)

Year Ended June 30, 2016

	Program Services					Supporting Services			Total Functional Expenses
	Foster Care Services	Family Visitation Center	Group Care	Community Organization	Total Program Services	Management and General	Fund Raising	Total Supporting Services	
Salaries	\$ 6,863,026	\$ 478,948	\$ 4,681,475	\$ 2,950,910	\$ 65,199,849	\$ 7,367,210	\$ 2,423,380	\$ 9,790,590	\$ 74,990,439
Employee benefits	1,012,032	74,260	710,071	449,553	9,719,595	850,897	369,182	1,220,079	10,939,674
Payroll taxes and other	607,061	42,105	422,555	244,469	5,763,730	525,325	189,757	715,082	6,478,812
<b>Total salaries and related expenses</b>	<b>8,482,119</b>	<b>595,313</b>	<b>5,814,101</b>	<b>3,644,932</b>	<b>80,683,174</b>	<b>8,743,432</b>	<b>2,982,319</b>	<b>11,725,751</b>	<b>92,408,925</b>
Professional fees	178,841	10,617	44,407	56,220	1,815,912	1,267,539	367,072	1,634,611	3,450,523
Supplies	41,107	8,901	26,430	35,964	464,484	46,913	33,823	80,736	545,220
Telephone	88,743	18,337	135,718	59,575	1,334,023	570,224	84,667	654,891	1,988,914
Postage and shipping	9,344	473	3,324	4,724	88,592	21,121	11,219	32,340	120,932
Occupancy	336,000	88,806	754,605	211,537	4,899,413	473,929	163,415	637,344	5,536,757
Rental and maintenance of equipment	83,610	3,495	62,979	50,830	666,623	171,091	67,697	238,788	905,411
Printing and publications	7,573	213	1,606	34,270	92,832	31,487	57,569	89,056	181,888
Travel	549,571	24,295	397,141	183,540	4,884,197	344,043	104,355	448,398	5,332,595
Conferences, conventions and meetings	23,986	95	13,129	48,584	191,757	124,085	20,995	145,080	336,837
Specific assistance to individuals	1,280,023	1,206	788,117	70,320	5,578,789	15,656	178,620	194,276	5,773,065
Membership dues	7,041	683	5,510	6,244	139,365	85,579	10,894	96,473	235,838
Interest	-	-	-	-	-	569,065	70	569,135	569,135
Insurance	120,363	6,111	74,178	29,435	1,032,123	46,632	15,823	62,455	1,094,578
Provision for bad debt	2,217	-	5,271	-	83,099	1,720,209	-	1,720,209	1,803,308
Contributed goods	31,912	16,106	110,064	79,907	1,645,429	3,399	356,070	359,469	2,004,898
Other	96,733	3,635	88,052	83,502	1,194,297	538,742	576,259	1,115,001	2,309,298
<b>Total before depreciation and amortization</b>	<b>2,857,064</b>	<b>182,973</b>	<b>2,510,531</b>	<b>954,652</b>	<b>24,110,935</b>	<b>6,029,714</b>	<b>2,048,548</b>	<b>8,078,262</b>	<b>32,189,197</b>
Depreciation and amortization	94,086	13,048	168,838	52,062	652,707	1,950,356	47,866	1,998,222	2,650,929
<b>Total expenses</b>	<b>\$ 11,433,269</b>	<b>\$ 791,334</b>	<b>\$ 8,493,470</b>	<b>\$ 4,651,646</b>	<b>\$105,446,816</b>	<b>\$ 16,723,502</b>	<b>\$ 5,078,733</b>	<b>\$ 21,802,235</b>	<b>\$ 127,249,051</b>

See notes to consolidated financial statements.

The Children's Home Society of Florida and Subsidiaries

**Consolidated Statements of Cash Flows**  
**Years Ended June 30, 2017 and 2016**

	2017	2016
Cash Flows From Operating Activities		
Increase (decrease) in net assets	\$ 5,874,020	\$ (9,058,002)
Adjustments to reconcile increase (decrease) in net assets to net cash (used in) provided by operating activities:		
Depreciation and amortization	2,469,002	2,650,929
Net realized and unrealized (gains) losses on investments	(1,075,849)	462,149
(Gain) loss on interest rate swap	(1,168,960)	1,125,409
Change in beneficial interests	(1,426,109)	587,666
Pension related changes other than net periodic benefit cost	(3,274,152)	2,313,970
Gain on sale/disposal of property and equipment	(773,122)	(21,559)
Provision for doubtful accounts	508,467	1,803,308
Changes in operating assets and liabilities:		
Receivables	(1,284,708)	1,329,223
Prepaid expenses and other assets	(4,132)	215,636
Accounts payable	(142,672)	(10,807)
Accrued expense	(857,109)	1,728,767
Deferred revenue and other liabilities	(420,101)	(598,876)
Pension liability	(278,320)	(564,410)
<b>Net cash (used in) provided by operating activities</b>	<b>(1,853,745)</b>	<b>1,963,403</b>
Cash Flows From Investing Activities		
Purchases of property and equipment	(1,191,981)	(1,306,613)
Proceeds from sale of property and equipment	2,888,081	209,860
Proceeds from sale of investments	416,694	672,228
Purchases of investments	(607,780)	(1,074,927)
<b>Net cash provided by (used in) investing activities</b>	<b>1,505,014</b>	<b>(1,499,452)</b>
Cash Flows From Financing Activities		
Payment on interest rate swap	(3,264,100)	-
Proceeds from debt	17,140,000	-
Principal payments on debt	(14,399,291)	(350,000)
<b>Net cash used in financing activities</b>	<b>(523,391)</b>	<b>(350,000)</b>
<b>Net (decrease) increase in cash and cash equivalents</b>	<b>(872,122)</b>	<b>113,951</b>
Cash and Cash Equivalents		
Beginning	4,334,793	4,220,842
Ending	\$ 3,462,671	\$ 4,334,793
Supplemental disclosure of cash flow information:		
Cash paid during the year for interest	\$ 587,758	\$ 568,388

See notes to consolidated financial statements.

## The Children's Home Society of Florida and Subsidiaries

### Notes to Consolidated Financial Statements

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#### Note 1. Nature of Organization and Significant Accounting Policies

**Nature of organization:** The Children's Home Society of Florida and Subsidiaries (collectively, CHS) is a nonprofit organization, which provides effective solutions to build and support healthy families for Florida's children.

A summary of CHS' significant accounting policies follows:

**Principles of consolidation:** The consolidated financial statements of CHS include the accounts of CHS and its wholly owned subsidiaries. CHS' wholly owned subsidiaries are as follows:

Centennial Holdings, LLC	Centennial Holdings (Buckner), LLC
Centennial Holdings (Treasure Coast), LLC	Centennial Holdings (Central Florida), LLC
Centennial Holdings (North Central), LLC	Centennial Holdings (Emerald Coast), LLC
ECIL Capital, LLC	Centennial Holdings (Gulf Coast), LLC
Centennial Holdings (Southwest), LLC	Centennial Holdings (Intercoastal), LLC
Centennial Holdings Collier Child Care, LLC	Centennial Holdings (Mid-Florida), LLC
Children's Home Society Early Learning Initiative, LLC	Centennial Holdings (North Coastal), LLC
Centennial Holdings (Brevard), LLC	Centennial Holdings (Southeast), LLC

All intercompany balances have been eliminated in consolidation.

**Basis of presentation:** The accompanying consolidated financial statements have been prepared on the accrual basis of accounting.

A nonprofit organization is required to report information regarding its financial position and activities according to three classes of net assets: unrestricted, temporarily restricted and permanently restricted. Accordingly, net assets of CHS and changes therein are classified and reported as follows:

**Unrestricted net assets:** Net assets that are not subject to donor-imposed stipulations.

**Temporarily restricted net assets:** Net assets subject to donor-imposed stipulations that may or will be met, either by actions of CHS and/or the passage of time.

**Permanently restricted net assets:** Net assets subject to donor-imposed stipulations that they be permanently maintained by CHS.

**Consolidated statements of activities:** CHS has an intermediate measure of operating results that classifies certain activities not included in operations as other changes. Other changes include: change in beneficial interests, net realized and unrealized gains (losses) on investments, gain (loss) on interest rate swap and pension related changes other than net periodic benefit cost.

**Cash and cash equivalents:** For purposes of reporting on the consolidated statements of cash flows, CHS considers demand accounts and money market accounts to be cash and money market funds to be cash equivalents. CHS maintains cash and cash equivalents with various major financial institutions, which are insured by the Federal Deposit Insurance Corporation (FDIC). From time to time, balances may exceed amounts insured by the FDIC.

**Receivables:** Receivables are stated at net realizable value. Pledges that are expected to be collected in future years are recorded at the present value of their estimated future cash flows. The discounts on those amounts are computed using risk-free interest rates applicable to the years in which the pledges are received. CHS uses the allowance method to determine uncollectible receivables. The allowance is established based upon management's analysis of specific accounts and other economic factors. In the opinion of management, the allowance for doubtful accounts of \$1,063,112 and \$778,875 at June 30, 2017 and 2016, respectively, reflects management's best estimate of uncollectible accounts.

## The Children's Home Society of Florida and Subsidiaries

### Notes to Consolidated Financial Statements

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#### Note 1. Nature of Organization and Significant Accounting Policies (Continued)

**Investments and investment income:** Investments are reported at fair value (see Note 6). Realized gains and losses are recorded at date of disposition based on the difference between the net proceeds and the cost of the investments sold, using the specific identification method. Unrealized gains and losses are reported for the changes in fair value between reporting periods. Interest and dividend income is recognized when earned. Investment income is reported within unrestricted net assets unless its use is temporarily restricted by explicit donor stipulations.

**Property and equipment:** Property and equipment is capitalized at cost when purchased, or at fair value at the date of gift, if contributed. Depreciation is computed on the straight-line method of accounting over the estimated useful lives of the assets. The lives of the various assets range from 3 to 40 years. The cost of assets retired or sold, together with the related accumulated depreciation, is removed from the accounts and any gains or losses from disposition are credited or charged to income. Expenditures for major renewals and betterments that extend the useful lives of property and equipment are capitalized. Expenditures for maintenance and repairs are charged to expense as incurred. The cost of leasehold improvements on leased office space is capitalized and amortized using the straight-line method of accounting over the term of the lease, or the useful life of the improvement, whichever is shorter.

**Impairment of long-lived assets:** The carrying value of property and equipment is reviewed for impairment whenever events or changes in circumstances indicate such value may not be recoverable. Recoverability of assets or asset groups to be held and used is measured by a comparison of the carrying amount of an asset or asset group to future net cash flows expected to be generated by the asset or asset group. If such assets or asset groups are considered to be impaired, the impairment to be recognized is measured by the amount by which the carrying amount of the assets or asset groups exceeds the fair value of the assets or asset groups. Assets or asset groups to be disposed of are reported at the lower of the carrying amount or fair value less cost to sell. No impairment of its long-lived assets or asset groups has been recognized during the years ended June 30, 2017 and 2016.

#### **Beneficial interests:**

***Beneficial interest in the net assets of The Children's Home Society of Florida Foundation, Inc. (Foundation):*** In accordance with guidance related to accounting for contributions held by an organization for the benefit of another organization, CHS recognizes its interest in the net assets of the Foundation in its consolidated financial statements under the equity method. Distributions from the Foundation are reported as a reduction in the beneficial interest and the change in residual value of temporarily or permanently restricted net assets of the Foundation are reported as a change in beneficial interest in the consolidated statements of activities.

***Beneficial interest in assets held by others:*** The beneficial interest in assets held by others is recorded as a beneficial interest in the consolidated statements of financial position at fair value based on the value of the underlying assets. Change in fair value of the beneficial interest in assets held by others is reported as a change in beneficial interest in the consolidated statements of activities.

**Deferred revenue and other liabilities:** Funds received for programs that have not been started or have not met the requirements for recognizing revenue based on services performed are recorded as deferred revenue. Other liabilities consist primarily of loss estimates for potential Medicaid audit adjustments.

CHS receives certain service contract revenues from public agencies, which are recorded on an accrual basis at the net realizable amounts estimated to be received. Revenues from public agencies are subject to periodic audit and retroactive adjustments. Retroactive adjustments are considered in the recognition of revenue on an estimated basis in the year the related services are rendered, and such amounts are adjusted in future periods as adjustments become known or as years are no longer subject to such audits, reviews and investigations. Laws and regulations governing the Medicaid program are extremely complex and subject to interpretation. As a result, there is at least a reasonable possibility that recorded estimates will change by a material amount in the near-term.

## The Children's Home Society of Florida and Subsidiaries

### Notes to Consolidated Financial Statements

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#### Note 1. Nature of Organization and Significant Accounting Policies (Continued)

**Public support and revenue recognition:** CHS recognizes contributions received, including unconditional promises to give, as assets and revenue in the period received at their fair values. All contributions are considered to be available for unrestricted use unless specifically restricted by the donor. Gifts of cash and other assets are reported as either temporarily restricted or permanently restricted support if they are received with donor stipulations that limit the use of such assets. When donor restrictions expire, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the consolidated statements of activities as net assets released from restrictions by satisfaction of program restrictions.

**Revenue from service contracts:** CHS is principally funded by public agencies whose funding is subject to annual appropriations. These public agency contracts are fixed fee, unit of service or cost reimbursement contracts. Revenue from fixed fee and unit of service contracts are recognized when services are provided. Revenue from cost reimbursement contracts are recognized when eligible costs are incurred.

**Adoptive and other service fees:** Revenue from adoptive and other service fees are recognized when services are provided.

**Contributed services and goods:** Contributed services are reported at fair value in the consolidated financial statements for voluntary donations of services only to the extent they create or enhance nonfinancial assets or require specialized skills, are provided by individuals possessing these skills, and would typically need to be purchased if not provided by donations. Contributed services were approximately \$334,400 and \$268,800 for the years ended June 30, 2017 and 2016, respectively, which is included in bequests, contributions and special events in the accompanying consolidated statements of activities.

Contributed goods are reported at fair value in the consolidated financial statements in the period received. Contributed goods were approximately \$1,736,400 and \$2,004,900 for the years ended June 30, 2017 and 2016, respectively, which is included in bequests, contributions and special events in the accompanying consolidated statements of activities.

**Derivatives:** CHS recognizes all derivatives in the consolidated statements of financial position at fair value (see Note 6). CHS had two interest rate swap agreements in place at June 30, 2016. These interest rate swap agreements had been designated as cash flow hedges against variable interest rate exposure on a portion of its debt, with the objective of minimizing the impact of interest rate fluctuations and stabilizing cash flows.

**Functional expenses:** The cost of providing various programs and supporting services have been summarized on a functional basis in the consolidated statements of activities and in the consolidated statements of functional expenses. Salaries and other expenses that are associated with a specific program are charged directly to that program. Salaries and other expenses that benefit more than one program are allocated to the various programs based on the relative benefit provided. Occupancy costs are allocated to the various programs based on square footage occupied by each program.

**Use of estimates:** The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America (GAAP) requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

## The Children's Home Society of Florida and Subsidiaries

### Notes to Consolidated Financial Statements

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#### Note 1. Nature of Organization and Significant Accounting Policies (Continued)

**Income taxes:** CHS is exempt from federal income taxes under Section 501(c)(3) of the Internal Revenue Code and from state income taxes under similar provisions of the Florida Statutes. Accordingly, no provision for federal and state income taxes has been recorded in the accompanying consolidated financial statements.

In addition, management assessed whether there were any uncertain tax positions which may give rise to income tax liabilities and determined that there were no such matters requiring recognition in the accompanying consolidated financial statements. CHS files tax returns in the U.S. federal jurisdiction. Generally, CHS is no longer subject to U.S. federal income tax examinations by taxing authorities for years before June 30, 2014.

**Recent accounting pronouncements:** In August 2016, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) 2016-14, *Not-for-Profit Entities (Topic 958): Presentation of Financial Statements of Not-for-Profit Entities*. ASU 2016-14 amends guidance on the current net asset classification requirements and the information presented in the financial statements and notes about a not-for-profit entity's liquidity, financial performance, and cash flows. ASU 2016-14 replaces the currently required three net asset classes with two net asset classes, *net assets with donor restrictions* and *net assets without donor restrictions*. Other amendments within ASU 2016-14 will improve the usefulness of information provided to donors, grantors, creditors, and other users of a not-for-profit entity's financial statements. The amendments in ASU 2016-14 are effective for annual financial statements issued for fiscal years beginning after December 15, 2017 and early adoption is permitted. CHS is currently evaluating the impact this ASU will have on its consolidated financial statements.

In February 2016, the FASB issued its new lease accounting guidance in ASU 2016-02, *Leases (Topic 842)*. Under the new guidance, lessees will be required to recognize the following for all leases (with the exception of short-term leases) at the commencement date: (1) A lease liability, which is a lessee's obligation to make lease payments arising from a lease, measured on a discounted basis; and (2) A right-of-use asset, which is an asset that represents the lessee's right to use, or control the use of, a specified asset for the lease term. Lessees will no longer be provided with a source of off-balance sheet financing. Lessees must apply a modified retrospective transition approach for leases existing at, or entered into after, the beginning of the earliest comparative period presented in the consolidated financial statements. Nonpublic entities should apply the amendments for fiscal years beginning after December 15, 2019 and early application is permitted. CHS is currently evaluating the impact this ASU will have on its consolidated financial statements.

The FASB has issued certain new or modifications to, or interpretations of, existing accounting guidance in addition to the ASU's described above. CHS has considered the new pronouncements and does not believe that any other new or modified guidance will have a material impact on CHS' reported consolidated financial position or activities in the near-term.

**Subsequent events:** Management has assessed subsequent events through October 31, 2017, the date the consolidated financial statements were available to be issued.

## The Children's Home Society of Florida and Subsidiaries

### Notes to Consolidated Financial Statements

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#### Note 2. Temporarily and Permanently Restricted Net Assets

Temporarily restricted net assets consisted of the following at June 30, 2017 and 2016:

	2017	2016
Beneficial interest in the net assets of The Children's Home Society of Florida Foundation, Inc.	\$ 13,901,498	\$ 12,510,479
Beneficial interest in assets held by others – Community Foundation of Tampa Bay, Inc.	(92,343)	(98,559)
	<u>\$ 13,809,155</u>	<u>\$ 12,411,920</u>

As of June 30, 2017 and 2016, net assets of \$1,241,509 and \$1,251,696, respectively, were released from donor restrictions by incurring expenses satisfying the restricted purposes.

Permanently restricted net assets consisted of the following at June 30, 2017 and 2016:

	2017	2016
Beneficial interest in the net assets of The Children's Home Society of Florida Foundation, Inc.	\$ 8,824,792	\$ 8,795,918
Beneficial interest in assets held by others – Community Foundation of Tampa Bay, Inc.	960,572	960,572
	<u>\$ 9,785,364</u>	<u>\$ 9,756,490</u>

#### Note 3. Receivables

Receivables consisted of the following at June 30, 2017 and 2016:

	2017	2016
Community based care contracts	\$ 7,085,480	\$ 6,817,697
Other contracts	3,268,048	2,177,663
Government contracts	2,552,551	2,371,185
Pledges	1,495,346	1,574,086
Medicaid	1,060,663	1,449,917
	15,462,088	14,390,548
Less allowance for doubtful accounts	(1,063,112)	(778,875)
Less discount for time-value of money	(60,943)	(49,881)
	<u>\$ 14,338,033</u>	<u>\$ 13,561,792</u>

## The Children's Home Society of Florida and Subsidiaries

### Notes to Consolidated Financial Statements

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#### Note 3. Receivables (Continued)

Pledges that are included above are unconditional promises to give at June 30, 2017 and 2016, and are summarized as follows:

	2017	2016
Amounts due:		
Within one year	\$ 308,300	\$ 237,360
One to five years	984,298	882,358
More than five years	202,748	454,368
	<u>1,495,346</u>	<u>1,574,086</u>
Less allowance for doubtful accounts	(146,659)	(84,401)
Less discount for time-value of money	(60,943)	(49,881)
	<u>\$ 1,287,744</u>	<u>\$ 1,439,804</u>

#### Note 4. Investments

The fair value of investments at June 30, 2017 and 2016, consists of the following:

	2017	2016
Mutual funds:		
Large blend fund	\$ 5,587,097	\$ 4,694,839
Intermediate-term bond fund	2,481,669	2,403,800
Foreign large blend fund	1,829,703	1,539,018
Mid-cap growth fund	1,243,809	1,075,480
Moderated allocation fund	603,633	562,637
Multi-sector bond fund	545,829	502,450
Target date fund	270,174	479,629
Large growth fund	44,136	39,985
Small blend fund	15,315	13,548
Short government fund	9,049	9,181
Mid-cap blend fund	-	26,645
Retirement income fund	-	22,893
Real estate investment trust	528,167	521,541
	<u>\$ 13,158,581</u>	<u>\$ 11,891,646</u>

## The Children's Home Society of Florida and Subsidiaries

### Notes to Consolidated Financial Statements

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#### Note 5. Property and Equipment

Property and equipment consisted of the following at June 30, 2017 and 2016:

	2017	2016
Land	\$ 4,213,549	\$ 4,827,402
Buildings and improvements	39,525,240	41,330,997
Furniture and equipment	18,766,828	24,279,695
Leasehold improvements	1,088,451	1,314,788
	<u>63,594,068</u>	<u>71,752,882</u>
Less accumulated depreciation	(31,339,466)	(36,873,025)
	<u>\$ 32,254,602</u>	<u>\$ 34,879,857</u>

Depreciation and amortization expense of property and equipment for the years ended June 30, 2017 and 2016, was approximately \$2,469,000 and \$2,651,000, respectively.

#### Note 6. Fair Value Measurements

CHS follows accounting standards relating to fair value measurements which defines fair value, establishes a framework for measuring fair value in accordance with GAAP, and expands disclosures about fair value measurements. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The accounting standards relating to fair value measurements establishes a three-level valuation hierarchy for disclosure of fair value measurements. The valuation hierarchy is based upon the transparency of inputs to the valuation of an asset or liability as of the measurement date. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities and the lowest priority to unobservable inputs. The three levels are defined as follows:

**Level 1:** Quoted market prices in active markets for identical assets or liabilities.

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

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

A financial instrument's categorization within the valuation hierarchy is based upon the lowest level of input that is significant to the fair value measurement.

The fair value of actively traded debt and equity securities are based on quoted market prices. Fair value of inactively traded debt securities are based on quoted market prices of identical or similar securities or based on observable inputs like interest rates using either a market or income valuation approach and are generally classified as Level 2.

The fair value of CHS' interest rate swap contracts (used for purposes other than trading) is the estimated amount CHS would pay to terminate these agreements at the reporting date, taking into account current interest rates and the creditworthiness of the counterparty for assets and creditworthiness of CHS for liabilities. Interest rate swap contracts are fair valued by using third party services and are classified as Level 2 as their market value is based on observable market based inputs or unobservable inputs that are corroborated by market data. Observable market inputs include yield curves, counterparty credit risk and other related data.

## The Children's Home Society of Florida and Subsidiaries

### Notes to Consolidated Financial Statements

#### Note 6. Fair Value Measurements (Continued)

The fair value of CHS' beneficial interest in assets held by others – Community Foundation of Tampa Bay, Inc. (Community Foundation) is determined based on CHS' allocated share of the Community Foundation's investment pool. Information is provided to CHS by Community Foundation management in the form of a quarterly investment report and through the Community Foundation's annual audit. The pooled investments at the Community Foundation primarily consist of Level 1 securities. The beneficial interest in the Community Foundation is classified as a Level 3 since redemption cannot occur in the near-term.

The tables below represent CHS's financial assets and liabilities measured at fair value on a recurring basis by level within the hierarchy at June 30, 2017 and 2016:

	2017			
	Fair Value Measurements Using			
	Level 1	Level 2	Level 3	Total
Investments:				
Mutual funds:				
Large blend fund	\$ 5,587,097	\$ -	\$ -	\$ 5,587,097
Intermediate-term bond fund	2,481,669	-	-	2,481,669
Foreign large blend fund	1,829,703	-	-	1,829,703
Mid-cap growth fund	1,243,809	-	-	1,243,809
Moderated allocation fund	603,633	-	-	603,633
Multi-sector bond fund	545,829	-	-	545,829
Target date fund	270,174	-	-	270,174
Large growth fund	44,136	-	-	44,136
Small blend fund	15,315	-	-	15,315
Short government fund	9,049	-	-	9,049
Total investments in fair value hierarchy	12,630,414	-	-	12,630,414
Real estate investment trust measured at net asset value (a)	-	-	-	528,167
Total investments at fair value	\$ 12,630,414	\$ -	\$ -	\$ 13,158,581
Beneficial interest in assets held by others – Community Foundation of Tampa Bay, Inc.	\$ -	\$ -	\$ 868,229	\$ 868,229

The Children's Home Society of Florida and Subsidiaries

Notes to Consolidated Financial Statements

Note 6. Fair Value Measurements (Continued)

	2016			
	Fair Value Measurements Using			
	Level 1	Level 2	Level 3	Total
Investments:				
Mutual funds:				
Large blend fund	\$ 4,694,839	\$ -	\$ -	\$ 4,694,839
Intermediate-term bond fund	2,403,800	-	-	2,403,800
Foreign large blend fund	1,539,018	-	-	1,539,018
Mid-cap growth fund	1,075,480	-	-	1,075,480
Moderated allocation fund	562,637	-	-	562,637
Multi-sector bond fund	502,450	-	-	502,450
Target date fund	479,629	-	-	479,629
Large growth fund	39,985	-	-	39,985
Mid-cap blend fund	26,645	-	-	26,645
Retirement income fund	22,893	-	-	22,893
Small blend fund	13,548	-	-	13,548
Short government fund	9,181	-	-	9,181
Total investments in fair value hierarchy	11,370,105	-	-	11,370,105
Real estate investment trust measured at net asset value (a)	-	-	-	521,541
Total investments at fair value	\$ 11,370,105	\$ -	\$ -	\$ 11,891,646
Beneficial interest in assets held by others – Community Foundation of Tampa Bay, Inc.	\$ -	\$ -	\$ 862,013	\$ 862,013
Liabilities:				
Interest rate swap obligation	\$ -	\$ 4,433,060	\$ -	\$ 4,433,060

(a) Certain investments that are measured at net asset value (NAV) per share practical expedient or its equivalent have not been classified in the fair value hierarchy. The fair value amounts presented in this table are reported for the purpose of reconciling the fair value hierarchy to the investments reported in the consolidated statements of financial position.

The real estate investment trust consists of an investment in American Core Realty Fund, LP (the Fund) which is a Delaware limited partnership that invests primarily in core institutional-quality industrial, multi-family, office, and retail properties located throughout the United States, and is diversified by product type, geographic region, and economic exposure in order to mitigate investment risk. The Fund is an open-end diversified core real estate commingled fund whose primary objective is to provide returns that are attractive relative to other asset classes with stable income and the potential for market appreciation. The fair value is determined using the NAV per share as a practical expedient, as provided by the investment manager. CHS receives audited financial statements annually and quarterly unaudited performance reports.

## The Children's Home Society of Florida and Subsidiaries

### Notes to Consolidated Financial Statements

#### Note 6. Fair Value Measurements (Continued)

The following table sets forth additional disclosures of CHS' investments whose fair value is estimated using net asset value per share (or its equivalents) as of June 30, 2017 and 2016:

	Fair Value	Unfunded Commitment	Redemption Frequency	Redemption Notice Period
<u>June 30, 2017</u>				
Real estate investment trust	\$ 528,167	\$ -	Daily	90 days
<u>June 30, 2016</u>				
Real estate investment trust	\$ 521,541	\$ -	Daily	90 days

The table below sets forth a summary of the changes in the fair value of CHS' Level 3 financial assets (beneficial interest in assets held by others – Community Foundation of Tampa Bay, Inc.) during the years ended June 30, 2017 and 2016:

	2017	2016
Balance, beginning of year	\$ 862,013	\$ 992,152
Net realized and unrealized gains (losses)	89,853	(77,962)
Interest and dividend income	20,378	56,364
Distributions to CHS	(97,665)	(102,133)
Investment manager and administrative fees	(6,350)	(6,408)
Balance, end of year	\$ 868,229	\$ 862,013

#### Note 7. Accrued Expenses

Accrued expenses consisted of the following at June 30, 2017 and 2016:

	2017	2016
Accrued salaries and benefits	\$ 4,313,902	\$ 4,897,877
Accrued vacation	2,162,391	2,541,738
Other	962,160	855,947
	\$ 7,438,453	\$ 8,295,562

CHS has a workers' compensation indemnity policy, whereby, CHS is responsible for the first \$350,000 of bodily injury due by accident or disease and \$1,000,000 for all bodily injury in the aggregate during the policy year, ending June 30<sup>th</sup> of each year. Included in accrued salaries and benefits is a workers' compensation liability, which represents the estimated amount due for open claims and claims incurred but not reported, totaling approximately \$491,800 and \$547,400 at June 30, 2017 and 2016, respectively.

## The Children's Home Society of Florida and Subsidiaries

### Notes to Consolidated Financial Statements

#### Note 8. Debt and Lines of Credit

Debt consisted of the following at June 30, 2017 and 2016:

	2017	2016
Note payable to a bank, due in monthly principal payments of \$55,360 plus interest. The note bears interest at a variable interest rate based on the one-month LIBOR interest rate plus 1.50% (2.60% at June 30, 2017). The note matures in May 2022, at which time, the entire unpaid principal is due and payable. The note is collateralized by substantially all the assets of CHS.	\$ 13,729,280	\$ -
Note payable to a bank, due in monthly principal payments of \$39,286 plus interest. The note bears interest at a variable interest rate based on the one-month LIBOR interest rate plus 2.50% (3.63% at June 30, 2017). The note matures in May 2022, at which time, the entire unpaid principal is due and payable. The note is collateralized by substantially all the assets of CHS.	3,221,429	-
Bonds payable dated April 1, 2008, with an original principal balance of \$16,680,000. The bonds bore interest at a variable interest rate based on the one-month LIBOR interest rate. CHS entered into two interest rate swap agreements that fixed the interest rate at 4.39% and 3.20% (see disclosure below). The bonds were paid-off in May 2017.	-	14,210,000
Note payable to the City of Jacksonville, Florida, to finance construction of transitional housing for youths aging out of foster care. The note is non-interest-bearing and matures in March 2025. As described in the note agreement, if there is no uncured event of default upon the maturity date, then the outstanding balance will be forgiven and cancelled by the City of Jacksonville. At the time of debt forgiveness, CHS will recognize a gain in the consolidated statements of activities equal to the outstanding debt balance. The note is collateralized by property in Jacksonville, Florida.	740,822	740,822
Note payable to the Florida Housing Finance Corporation to finance construction of transitional housing for youths aging out of foster care. The note is non-interest-bearing and matures in March 2024, at which time, the entire unpaid principal is due and payable. The note is collateralized by property in Jacksonville, Florida.	248,788	248,788
Note payable to the Florida Housing Finance Corporation to finance construction of transitional housing for youths aging out of foster care. The note is non-interest-bearing and matures in July 2026, at which time, the entire unpaid principal is due and payable. The note is collateralized by property in Sebring, Florida.	750,000	750,000
Note payable to the County of Escambia, Florida, to finance construction of transitional housing for homeless pregnant women or women with children. The note is non-interest-bearing and matures in January 2023. As described in the note agreement, if there is no uncured event of default upon the maturity date, then the outstanding balance will be forgiven and cancelled by the County of Escambia. At the time of debt forgiveness, CHS will recognize a gain in the consolidated statements of activities equal to the outstanding debt balance. The note is collateralized by property in Pensacola, Florida.	120,000	120,000
	<u>\$ 18,810,319</u>	<u>\$ 16,069,610</u>

## The Children's Home Society of Florida and Subsidiaries

### Notes to Consolidated Financial Statements

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#### Note 8. Debt and Lines of Credit (Continued)

Maturities of debt as of June 30, 2017, are as follows:

Years Ending June 30:	Amount
2018	\$ 1,041,103
2019	1,135,749
2020	1,135,749
2021	1,135,749
2022	12,502,359
Thereafter	1,859,610
	<u>\$ 18,810,319</u>

Effective October 2005 and April 2008, CHS entered into two interest rate swap agreements with a notional amount that decreases every six months. Under the terms of the agreements, CHS owed interest calculated at a fixed interest rate of 4.39% and 3.20%, respectively, and received interest calculated at a variable rate based on the one-month LIBOR interest rate. The interest rate swaps were paid-off in May 2017. For the year ended June 30, 2017, the interest rate swaps had a total negative fair value of \$3,264,100 prior to being paid-off, resulting in a gain of \$1,168,960, which is reflected in the accompanying consolidated statements of activities. For the year ended June 30, 2016, the interest rate swaps had a total negative fair value of \$4,433,060, resulting in a loss of \$1,125,409, which is reflected in the accompanying consolidated statements of activities.

In May 2017, CHS entered into a \$5,000,000 revolving line of credit with a bank bearing interest at the one-month LIBOR interest rate plus 1.45% (2.58% at June 30, 2017). Interest on the line of credit is payable monthly and matures on May 22, 2018. The line of credit is collateralized by substantially all assets of CHS. There was no outstanding balance on the line of credit at June 30, 2017.

In May 2017, CHS entered into a \$1,000,000 multiple draw line of credit with a bank bearing interest at the one-month LIBOR interest rate plus 2.45% (3.58% at June 30, 2017). Interest on the line of credit is payable monthly and matures on May 22, 2018. The line of credit is collateralized by substantially all assets of CHS. There was no outstanding balance on the line of credit at June 30, 2017.

In April 2015, CHS entered into a \$2,000,000 revolving line of credit with a bank bearing interest at the one-month LIBOR interest rate plus 1.6%. Interest on the line of credit was payable monthly and was closed in May 2017. The line of credit was collateralized by substantially all investments of CHS. There was no outstanding balance on the line of credit at June 30, 2016.

In April 2015, CHS entered into a \$2,000,000 revolving line of credit with a bank bearing interest at the one-month LIBOR interest rate plus 3%. Interest on the line of credit was payable monthly and was closed in May 2017. The line of credit was unsecured. There was no outstanding balance on the line of credit at June 30, 2016.

## The Children's Home Society of Florida and Subsidiaries

### Notes to Consolidated Financial Statements

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#### Note 9. Commitments

**Leases:** Certain premises used by operating divisions are occupied under operating leases, ranging up to seven years. Rent expense under all leases was approximately \$2,360,000 and \$2,865,000 for the years ended June 30, 2017 and 2016, respectively.

Future minimum lease payments under these operating leases as of June 30, 2017, are as follows:

<u>Years Ending June 30:</u>	<u>Amount</u>
2018	\$ 2,014,708
2019	1,342,813
2020	743,154
2021	570,341
2022	301,417
Thereafter	129,536
	<u>\$ 5,101,969</u>

#### Note 10. Retirement Plans

Certain employees of CHS participate in a noncontributory Annuity Benefit Retirement Plan (the Plan) administered by CHS. The Plan provides for defined benefits. Benefits are based on years of service and the employee's final average compensation as defined under the Plan. CHS' funding policy is to contribute annually amounts based on the actuarial status of the Plan, but not less than that necessary to meet minimum regulatory funding standards. Plan assets consist of investments in a variety of debt and equity securities. Principal Life Insurance Company serves as the Plan's actuary.

On June 22, 2007, the Board of Directors approved a motion to freeze employee accrual of benefits under the Plan effective September 30, 2007, at which time, employees shall not accrue any further benefits after such date.

During the year ended June 30, 2013, lump sum settlement benefit payments resumed. During the years ended June 30, 2017 and 2016, lump sum settlement payments were \$3,080,961 and \$2,078,695, respectively. Lump sum settlement benefit payments were made to participants because the total lump sum cash payments exceeded the sum of the service cost and interest cost.

## The Children's Home Society of Florida and Subsidiaries

### Notes to Consolidated Financial Statements

#### Note 10. Retirement Plans (Continued)

The following tables provide a reconciliation of the changes in the Plan's benefit obligations and fair value of assets over the two-year period ended June 30, 2017, and a statement of the funded status as of June 30, 2017 and 2016:

	2017	2016
Accumulated benefit obligation at end of year	<u>\$ 41,503,232</u>	<u>\$ 44,971,701</u>
Change in projected benefit obligation:		
Projected benefit obligation at beginning of year	\$ 44,971,701	\$ 41,619,153
Interest cost	1,332,445	1,588,437
Actuarial (gain) loss	(1,306,551)	4,250,919
Benefit payments	(413,402)	(408,113)
Lump sum settlement benefit payments	(3,080,961)	(2,078,695)
Projected benefit obligation at end of year	<u>\$ 41,503,232</u>	<u>\$ 44,971,701</u>
Change in fair value of plan assets:		
Fair value of plan assets at beginning of year	\$ 33,787,406	\$ 32,184,418
Actual return on plan assets	1,478,366	1,989,796
Employer contributions	2,100,000	2,100,000
Benefit payments	(413,402)	(408,113)
Lump sum settlement benefit payments	(3,080,961)	(2,078,695)
Fair value of plan assets at end of year	<u>\$ 33,871,409</u>	<u>\$ 33,787,406</u>
Unfunded status at end of year	<u>\$ (7,631,823)</u>	<u>\$ (11,184,295)</u>

The unfunded status as of June 30, 2017 and 2016, of \$7,631,823 and \$11,184,295, respectively, are recorded as pension liability in the accompanying consolidated statements of financial position.

Pension related changes other than net periodic benefit cost for the years ended June 30, 2017 and 2016, are as follows:

	2017	2016
Net actuarial (gain) loss	\$ (849,307)	\$ 4,283,801
Amortization of actuarial loss	(1,465,114)	(1,220,520)
Amount recognized due to settlement	(959,731)	(749,311)
Pension related changes other than net periodic benefit cost	<u>\$ (3,274,152)</u>	<u>\$ 2,313,970</u>

## The Children's Home Society of Florida and Subsidiaries

### Notes to Consolidated Financial Statements

#### Note 10. Retirement Plans (Continued)

The table below represents CHS' pension plan assets measured at fair value by level within the hierarchy (see Note 6) as of June 30, 2017 and 2016:

	2017			
	Fair Value Measurements Using			
	Level 1	Level 2	Level 3	Total
Equity securities:				
Mutual funds:				
Domestic equities	\$ 11,459,225	\$ -	\$ -	\$ 11,459,225
International equities	2,093,689	-	-	2,093,689
Debt securities:				
Government bond fund – pooled separate accounts	-	1,824,232	-	1,824,232
Bond fund – pooled separate accounts	-	18,494,263	-	18,494,263
	<u>\$ 13,552,914</u>	<u>\$ 20,318,495</u>	<u>\$ -</u>	<u>\$ 33,871,409</u>
	2016			
	Fair Value Measurements Using			
	Level 1	Level 2	Level 3	Total
Equity securities:				
Mutual funds:				
Domestic equities	\$ 10,258,879	\$ -	\$ -	\$ 10,258,879
International equities	1,624,539	-	-	1,624,539
Debt securities:				
Government bond fund – pooled separate accounts	-	1,132,243	-	1,132,243
Bond fund – pooled separate accounts	-	20,771,745	-	20,771,745
	<u>\$ 11,883,418</u>	<u>\$ 21,903,988</u>	<u>\$ -</u>	<u>\$ 33,787,406</u>

CHS' pension plan weighted-average asset allocations at June 30, 2017 and 2016, by asset category are as follows:

	Target	Percentage of Plan	
	Allocation	Assets at June 30,	
	2018	2017	2016
Equity securities	30%	40%	35%
Debt securities	70%	60%	65%
	<u>100%</u>	<u>100%</u>	<u>100%</u>

## The Children's Home Society of Florida and Subsidiaries

### Notes to Consolidated Financial Statements

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#### Note 10. Retirement Plans (Continued)

**Expected return on Plan assets:** The expected rate of return on Plan assets is 6.5%. CHS expects 6.5% to fall within the 50 to 60 percentile rate of returns on investment portfolios with asset diversification similar to that of the pension plan's largest asset allocation.

**Investment policy and strategy:** The primary investment objectives of the Plan's investment pool are to preserve the purchasing power of assets and earn a reasonable real rate of return over the long-term while minimizing the short-term volatility of results.

The components of net periodic benefit cost for the Plan's fiscal years 2017 and 2016, are as follows:

	2017	2016
Interest cost	\$ 1,332,445	\$ 1,588,437
Expected return on plan assets	(1,935,610)	(2,022,678)
Amortization of actuarial loss	1,465,114	1,220,620
Effect of settlement	959,731	749,311
Net periodic benefit cost	<u>\$ 1,821,680</u>	<u>\$ 1,535,690</u>

The net periodic benefit cost has been allocated over program and supporting services expense in the accompanying consolidated statements of activities.

Prior service costs are amortized on a straight-line basis over the average remaining service period of active participants. Gains and losses in excess of 10% of the greater of the benefit obligation and the market-related value of assets are amortized over the average remaining service period of active participants.

Expected contributions for the fiscal year ending June 30, 2017, are \$2,100,000.

Estimated future benefit payments reflecting expected future service are as follows:

Years Ending June 30:	Amount
2018	\$ 5,170,000
2019	2,690,000
2020	1,770,000
2021	3,170,000
2022	2,180,000
2023 – 2027	12,780,000

## The Children's Home Society of Florida and Subsidiaries

### Notes to Consolidated Financial Statements

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#### Note 10. Retirement Plans (Continued)

The assumptions used in the measurement of CHS' benefit obligation are shown in the following table:

	2017	2016
Weighted-average assumptions as of June 30:		
Discount rate	3.40%	3.05%
Expected return on plan assets	6.50%	7.00%
Rate of compensation increase	N/A	N/A
	2017	2016
Alternative amortization methods used to amortize:		
Prior service cost	Straight-line	Straight-line
Unrecognized net (gain) or loss	Straight-line	Straight-line
Measurement date used	June 30, 2017	June 30, 2016

Additionally, CHS has a 403(b) thrift plan for eligible employees. Employees may make voluntary contributions up to the federal limits. For eligible employees employed by CHS for less than ten years, CHS makes matching contributions equal to 50% of employee contributions up to 10% of included compensation. For eligible employees employed by CHS for 10 years or more, CHS makes matching contributions equal to 75% of employee contributions up to 10% of included compensation. Employer contributions vest at 100% after three years of service. Employer contributions were approximately \$1,146,000 and \$1,285,000, respectively, for the years ended June 30, 2017 and 2016.

CHS also has a 457(b) thrift plan for eligible employees. Eligible employees may make voluntary contributions from accumulated vacation pay in excess of 240 hours before deferral, but limited each plan year to deferral contributions equal to no more than 80 hours of accumulated vacation pay. CHS makes non-elective contributions annually to the plan. Employer contributions are 100% vested upon contribution. There were no employer contributions during the years ended June 30, 2017 and 2016.

In October 2007, CHS adopted a 457(f) deferred compensation plan for eligible employees. Contributions to the plan may be made by employee deferrals, employer match, and/or discretionary employer contributions. The employer match and discretionary contribution vest immediately upon contribution. There were no employer contributions during the years ended June 30, 2017 and 2016.

#### Note 11. Litigation

CHS is engaged in various legal proceedings incidental to its normal business activities. Such proceedings primarily consist of alleged discriminatory labor practices and alleged negligent professional services. While the results of this litigation cannot be predicted with certainty, CHS believes that the final outcome of all litigation will not have a material adverse effect on CHS' consolidated financial position or results of operations.

## The Children's Home Society of Florida and Subsidiaries

### Notes to Consolidated Financial Statements

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#### Note 12. Beneficial Interests

Beneficial interests consisted of the following at June 30, 2017 and 2016:

	2017	2016
Beneficial interest in the net assets of The Children's Home Society of Florida Foundation, Inc., reported on the equity method	\$ 22,726,290	\$ 21,306,397
Beneficial interest in assets held by others – Community Foundation of Tampa Bay, Inc., reported at fair value	868,229	862,013
	<u>\$ 23,594,519</u>	<u>\$ 22,168,410</u>

At June 30, 2017 and 2016, CHS's beneficial interest in the net assets of The Children's Home Society of Florida Foundation, Inc. (Foundation) was \$22,726,290 and \$21,306,397, respectively, which is included in the accompanying consolidated statements of financial position. The temporarily restricted net assets change in beneficial interest in the net assets of the Foundation was \$2,575,139 and \$286,063, net of distributions to CHS (contributions to the Foundation) of \$1,184,120 and \$1,072,467, for the years ended June 30, 2017 and 2016, respectively, which is included in the accompanying consolidated statements of activities. The permanently restricted net assets change in beneficial interest in the net assets of the Foundation was \$28,874 and \$328,877 for the years ended June 30, 2017 and 2016, respectively, which is included in the accompanying consolidated statements of activities.

At June 30, 2017 and 2016, CHS has a beneficial interest in assets held by the Community Foundation of Tampa Bay, Inc. (Community Foundation) in a charitable endowment fund known as the Children's Home Society of Florida Joshua House Fund. The Community Foundation was granted no variance power to redirect the use of the assets to another beneficiary. On an annual basis, the Community Foundation distributes net income from this fund to CHS as determined by the Community Foundation's spending policy. As of June 30, 2017 and 2016, the endowment fund has a fair value of \$868,229 and \$862,013, respectively, which is included in the accompanying consolidated statements of financial position. The temporarily restricted net assets change in beneficial interest in assets held by others was \$6,216 and (\$130,139) for the years ended June 30, 2017 and 2016, respectively, which is included in the accompanying consolidated statements of activities. There was no change in permanently restricted net assets in beneficial interest in assets held by others for the years ended June 30, 2017 and 2016.

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

**Independent Auditor's Report**

To the Audit Committee  
The Children's Home Society of Florida

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the consolidated financial statements of The Children's Home Society of Florida and its subsidiaries, which comprise the consolidated statement of financial position as of June 30, 2017, and the related consolidated statements of activities, functional expenses and cash flows for the year then ended, and the related notes to the consolidated financial statements, and have issued our report thereon dated October 31, 2017.

**Internal Control Over Financial Reporting**

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

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

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

**Compliance and Other Matters**

As part of obtaining reasonable assurance about whether The Children's Home Society of Florida and its subsidiaries' consolidated financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of 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 The Children's Home Society of Florida and its subsidiaries' internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering The Children's Home Society of Florida and its subsidiaries' internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

*RSM US LLP*

Orlando, Florida  
October 31, 2017