

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

Consolidated Financial Report  
June 30, 2018 and 2017

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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, 2018 and 2017, 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, 2018 and 2017, 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, 2018 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 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 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, 2018

The Children's Home Society of Florida and Subsidiaries

Consolidated Statements of Financial Position  
June 30, 2018 and 2017

	2018	2017
<b>Assets</b>		
Cash and cash equivalents	\$ 5,224,697	\$ 3,462,671
Receivables, net	12,554,788	14,338,033
Prepaid expenses and other assets	1,875,165	2,342,310
Investments	14,082,639	13,158,581
Beneficial interests	24,721,982	23,594,519
Property and equipment, net	31,281,382	32,254,602
<b>Total assets</b>	<b>\$ 89,740,653</b>	<b>\$ 89,150,716</b>
<b>Liabilities and Net Assets</b>		
Liabilities		
Accounts payable	\$ 2,516,219	\$ 1,330,405
Accrued expenses	6,683,357	7,438,453
Deferred revenue and other liabilities	717,991	738,199
Pension liability	6,430,811	7,631,823
Held in custody for account of others	937,978	987,420
Debt and lines of credit	18,565,673	18,810,319
<b>Total liabilities</b>	<b>35,852,029</b>	<b>36,936,619</b>
Commitments and Contingencies (Notes 7, 8, 9, 10 and 11)		
Net Assets		
Unrestricted	29,166,642	28,619,578
Temporarily restricted	14,788,226	13,809,155
Permanently restricted	9,933,756	9,785,364
<b>Total net assets</b>	<b>53,888,624</b>	<b>52,214,097</b>
<b>Total liabilities and net assets</b>	<b>\$ 89,740,653</b>	<b>\$ 89,150,716</b>

See notes to consolidated financial statements.

The Children's Home Society of Florida and Subsidiaries

Consolidated Statements of Activities

Year Ended June 30, 2018

	2018			Total
	Unrestricted	Temporarily Restricted	Permanently Restricted	
Operating Public Support, Revenues and Other Support				
Operating public support:				
United Way	\$ 1,523,374	\$ -	\$ -	\$ 1,523,374
Bequests, contributions and special events	7,959,270	30,402	-	7,989,672
<b>Total operating public support</b>	<b>9,482,644</b>	<b>30,402</b>	<b>-</b>	<b>9,513,046</b>
Revenue from service contracts	100,425,569	-	-	100,425,569
Adoptive and other service fees	496,573	-	-	496,573
Investment income	624,296	-	-	624,296
Other revenue	1,131,861	-	-	1,131,861
<b>Total operating public support and revenues</b>	<b>112,160,943</b>	<b>30,402</b>	<b>-</b>	<b>112,191,345</b>
Net assets released from restrictions by satisfaction of program restrictions	1,018,754	(1,018,754)	-	-
<b>Total operating public support, revenues and other support</b>	<b>113,179,697</b>	<b>(988,352)</b>	<b>-</b>	<b>112,191,345</b>
Operating Expenses				
Program services	98,354,538	-	-	98,354,538
Supporting services:				
Management and general	14,411,155	-	-	14,411,155
Fundraising	3,624,676	-	-	3,624,676
<b>Total supporting services</b>	<b>18,035,831</b>	<b>-</b>	<b>-</b>	<b>18,035,831</b>
<b>Total operating expenses</b>	<b>116,390,369</b>	<b>-</b>	<b>-</b>	<b>116,390,369</b>
<b>Decrease in net assets from operations</b>	<b>(3,210,672)</b>	<b>(988,352)</b>	<b>-</b>	<b>(4,199,024)</b>
Other Changes				
Change in beneficial interests	-	1,967,423	148,392	2,115,815
Net realized and unrealized gains on investments	322,465	-	-	322,465
Pension related changes other than net periodic benefit cost	3,435,271	-	-	3,435,271
<b>Increase in other changes</b>	<b>3,757,736</b>	<b>1,967,423</b>	<b>148,392</b>	<b>5,873,551</b>
<b>Increase in net assets</b>	<b>547,064</b>	<b>979,071</b>	<b>148,392</b>	<b>1,674,527</b>
Net Assets				
Beginning	28,619,578	13,809,155	9,785,364	52,214,097
Ending	\$ 29,166,642	\$ 14,788,226	\$ 9,933,756	\$ 53,888,624

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The Children's Home Society of Florida and Subsidiaries

Consolidated Statements of Activities (Continued)

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>	11,421,618	57,389	-	11,479,007
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>	116,364,904	57,389	-	116,422,293
Net assets released from restrictions by satisfaction of program restrictions	1,241,509	(1,241,509)	-	-
<b>Total operating public support, revenues and other support</b>	117,606,413	(1,184,120)	-	116,422,293
Operating Expenses				
Program services	99,965,791	-	-	99,965,791
Supporting services:				
Management and general	14,778,584	-	-	14,778,584
Fundraising	3,933,088	-	-	3,933,088
<b>Total supporting services</b>	18,711,672	-	-	18,711,672
<b>Total operating expenses</b>	118,677,463	-	-	118,677,463
<b>Decrease in net assets from operations</b>	(1,071,050)	(1,184,120)	-	(2,255,170)
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>	5,518,961	2,581,355	28,874	8,129,190
<b>Increase in net assets</b>	4,447,911	1,397,235	28,874	5,874,020
Net Assets				
Beginning	24,171,667	12,411,920	9,756,490	46,340,077
Ending	\$ 28,619,578	\$ 13,809,155	\$ 9,785,364	\$ 52,214,097

See notes to consolidated financial statements.

The Children's Home Society of Florida and Subsidiaries

Consolidated Statements of Functional Expenses

Year Ended June 30, 2018

	Program Services					Supporting Services			Total Functional Expenses	
	Child Welfare Solutions	Behavioral Health Solutions	Early Childhood Solutions	Community Solutions	Community Education	Total Program Services	Management and General	Fund Raising		Total Supporting Services
Salaries	\$ 37,575,812	\$ 10,693,388	\$ 8,118,113	\$ 2,453,768	\$ 921,276	\$ 59,762,357	\$ 7,054,542	\$ 1,586,669	\$ 8,641,211	\$ 68,403,568
Employee benefits	6,018,435	1,717,735	1,298,212	407,818	147,544	9,589,744	1,207,057	248,547	1,455,604	11,045,348
Payroll taxes and other	3,480,049	1,000,462	748,191	226,257	71,791	5,526,750	498,651	125,297	623,948	6,150,698
<b>Total salaries and related expenses</b>	<b>47,074,296</b>	<b>13,411,585</b>	<b>10,164,516</b>	<b>3,087,843</b>	<b>1,140,611</b>	<b>74,878,851</b>	<b>8,760,250</b>	<b>1,960,513</b>	<b>10,720,763</b>	<b>85,599,614</b>
Professional fees	655,198	909,660	93,746	258,476	37,233	1,954,313	1,314,563	307,819	1,622,382	3,576,695
Supplies	228,063	76,756	95,396	19,813	8,857	428,885	52,033	22,473	74,506	503,391
Telephone	689,810	266,796	226,363	72,570	22,184	1,277,723	522,038	155,962	678,000	1,955,723
Postage and shipping	49,970	6,412	14,909	2,358	2,657	76,306	23,653	31,004	54,657	130,963
Occupancy	2,299,053	915,407	859,964	128,096	68,910	4,271,430	654,572	167,357	821,929	5,093,359
Rental and maintenance of equipment	324,024	118,594	153,216	22,526	16,712	635,072	123,543	21,386	144,929	780,001
Printing and publications	27,108	28,577	45,377	16,219	43,992	161,273	85,810	47,985	133,795	295,068
Travel	3,193,845	472,795	627,772	105,644	37,396	4,437,452	307,751	80,425	388,176	4,825,628
Conferences, conventions and meetings	106,220	56,385	53,718	20,965	7,434	244,722	42,474	7,543	50,017	294,739
Specific assistance to individuals	3,284,577	987,532	1,703,477	112,308	3,715	6,091,609	17,838	-	17,838	6,109,447
Membership dues	98,415	25,806	46,434	40,980	2,584	214,219	64,174	7,236	71,410	285,629
Interest	257	-	-	-	-	257	566,627	790	567,417	567,674
Insurance	857,834	147,747	118,942	26,931	6,410	1,157,864	49,305	15,680	64,985	1,222,849
Provision for bad debt	6,831	32,144	48,368	23,530	-	110,873	269,435	-	269,435	380,308
Contributed goods	343,810	47,226	517,711	129,663	1,921	1,040,331	23,725	382,693	406,418	1,446,749
Other	479,328	40,382	57,171	14,811	116,330	708,022	97,287	408,329	505,616	1,213,638
<b>Total before depreciation and amortization</b>	<b>59,718,639</b>	<b>17,543,804</b>	<b>14,827,080</b>	<b>4,082,733</b>	<b>1,516,946</b>	<b>97,689,202</b>	<b>12,975,078</b>	<b>3,617,195</b>	<b>16,592,273</b>	<b>114,281,475</b>
Depreciation and amortization	436,148	67,249	81,299	71,983	8,657	665,336	1,436,077	7,481	1,443,558	2,108,894
<b>Total expenses</b>	<b>\$ 60,154,787</b>	<b>\$ 17,611,053</b>	<b>\$ 14,908,379</b>	<b>\$ 4,154,716</b>	<b>\$ 1,525,603</b>	<b>\$ 98,354,538</b>	<b>\$ 14,411,155</b>	<b>\$ 3,624,676</b>	<b>\$ 18,035,831</b>	<b>\$ 116,390,369</b>

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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
	Child Welfare Solutions	Behavioral Health Solutions	Early Childhood Solutions	Community Solutions	Community Education		Management and General	Fund Raising	Total Supporting Services	
Salaries	\$ 38,107,180	\$ 11,309,680	\$ 8,256,491	\$ 1,983,319	\$ 881,168	\$ 60,537,838	\$ 7,119,390	\$ 1,748,528	\$ 8,867,918	\$ 69,405,756
Employee benefits	5,971,875	1,787,922	1,253,886	316,108	153,144	9,482,935	830,433	280,115	1,110,548	10,593,483
Payroll taxes and other	3,487,307	1,051,297	752,879	179,856	67,890	5,539,229	512,208	136,029	648,237	6,187,466
<b>Total salaries and related expenses</b>	<b>47,566,362</b>	<b>14,148,899</b>	<b>10,263,256</b>	<b>2,479,283</b>	<b>1,102,202</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	778,090	929,797	116,669	148,955	23,032	1,996,543	1,469,079	427,567	1,896,646	3,893,189
Supplies	245,686	82,448	83,270	19,767	15,378	446,549	43,362	18,065	61,427	507,976
Telephone	674,073	239,924	201,739	73,494	20,629	1,209,859	565,981	90,274	656,255	1,866,114
Postage and shipping	53,072	8,090	16,811	2,822	7,800	88,595	18,929	19,341	38,270	126,865
Occupancy	2,501,147	836,225	923,707	95,359	79,910	4,436,348	514,581	96,723	611,304	5,047,652
Rental and maintenance of equipment	155,688	118,253	128,850	338,949	17,464	759,204	232,998	22,919	255,917	1,015,121
Printing and publications	37,997	24,355	28,703	12,764	25,300	129,119	19,294	50,723	70,017	199,136
Travel	3,423,244	565,687	646,908	39,128	35,707	4,710,674	400,673	70,285	470,958	5,181,632
Conferences, conventions and meetings	85,328	130,740	72,876	22,782	4,929	316,655	53,236	9,054	62,290	378,945
Specific assistance to individuals	3,700,699	881,209	1,628,105	81,725	8,913	6,300,651	10,037	-	10,037	6,310,688
Membership dues	89,684	31,709	42,120	14,687	3,590	181,790	105,222	6,670	111,892	293,682
Interest	34	-	-	-	29	63	540,647	64	540,711	540,774
Insurance	826,985	132,096	117,427	25,788	7,025	1,109,321	46,751	13,075	59,826	1,169,147
Provision for bad debt	10,426	22,536	22,660	6,211	-	61,833	446,634	-	446,634	508,467
Contributed goods	393,057	57,849	700,972	122,973	312	1,275,163	3,973	457,220	461,193	1,736,356
Other	484,441	38,801	64,772	16,759	135,472	740,245	29,216	476,551	505,767	1,246,012
<b>Total before depreciation and amortization</b>	<b>61,026,013</b>	<b>18,248,618</b>	<b>15,058,845</b>	<b>3,501,446</b>	<b>1,487,692</b>	<b>99,322,614</b>	<b>12,962,644</b>	<b>3,923,203</b>	<b>16,885,847</b>	<b>116,208,461</b>
Depreciation and amortization	416,848	86,646	64,106	66,116	9,461	643,177	1,815,940	9,885	1,825,825	2,469,002
<b>Total expenses</b>	<b>\$ 61,442,861</b>	<b>\$ 18,335,264</b>	<b>\$ 15,122,951</b>	<b>\$ 3,567,562</b>	<b>\$ 1,497,153</b>	<b>\$ 99,965,791</b>	<b>\$ 14,778,584</b>	<b>\$ 3,933,088</b>	<b>\$ 18,711,672</b>	<b>\$ 118,677,463</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, 2018 and 2017

	2018	2017
Cash Flows From Operating Activities		
Increase in net assets	\$ 1,674,527	\$ 5,874,020
Adjustments to reconcile increase in net assets to net cash provided by (used in) operating activities:		
Depreciation and amortization	2,108,894	2,469,002
Net realized and unrealized gains on investments	(322,465)	(1,075,849)
Gain on interest rate swap	-	(1,168,960)
Change in beneficial interests	(1,127,463)	(1,426,109)
Gain on sale/disposal of property and equipment	(107,238)	(773,122)
Provision for doubtful accounts	380,308	508,467
Changes in operating assets and liabilities:		
Receivables	1,402,937	(1,284,708)
Prepaid expenses and other assets	467,145	(4,132)
Accounts payable	1,185,814	(142,672)
Accrued expenses	(755,096)	(857,109)
Deferred revenue and other liabilities	(20,208)	(420,101)
Pension liability	(1,201,012)	(3,552,472)
<b>Net cash provided by (used in) operating activities</b>	<b>3,686,143</b>	<b>(1,853,745)</b>
Cash Flows From Investing Activities		
Purchases of property and equipment	(1,437,861)	(1,191,981)
Proceeds from sale of property and equipment	359,983	2,888,081
Proceeds from sale of investments	351,140	416,694
Purchases of investments	(952,733)	(607,780)
<b>Net cash (used in) provided by investing activities</b>	<b>(1,679,471)</b>	<b>1,505,014</b>
Cash Flows From Financing Activities		
Payment on interest rate swap	-	(3,264,100)
Proceeds from debt and lines of credit	796,458	17,140,000
Principal payments on debt and lines of credit	(1,041,104)	(14,399,291)
<b>Net cash used in financing activities</b>	<b>(244,646)</b>	<b>(523,391)</b>
<b>Net increase (decrease) in cash and cash equivalents</b>	<b>1,762,026</b>	<b>(872,122)</b>
Cash and Cash Equivalents		
Beginning	3,462,671	4,334,793
Ending	\$ 5,224,697	\$ 3,462,671
Supplemental disclosure of cash flow information:		
Cash paid during the year for interest	\$ 479,548	\$ 587,758

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.

CHS' major program services are as follows:

**Child welfare solutions (breaking cycles of child abuse and neglect):** CHS serves children who have been abused and neglected with a goal to find a permanent solution (reunification, adoption or permanent living situation with a relative), so that the child lives in a safe nurturing environment. These services include case management, shelter, foster/adoptive home recruitment and retention, in home support services, family preservation services, child protection teams, CINS/FINS services for runaway and homeless youth, family and sibling visitation services, group home services, reunification, adoption and transitional living services. CHS has developed and implemented innovative solutions (i.e. CaseAIM) to reduce lengths of stay for children in care, improve the quality of care and child welfare outcomes of safety, permanency and well-being.

**Behavioral health solutions (improving health and well-being of children and families):** CHS serves children, families and adults who are diagnosed with behavioral disorders and are in need of counseling, psychiatric care and case management services. CHS provides trauma-focused therapy to improve the resiliency of children and adults exposed to trauma. CHS behavioral health solutions promote access, quality and outcome. Services are accessible at the convenience of CHS' clients (in home, school, community settings and via telehealth). Children and adults served in behavioral health services show improved functioning and are at reduced risk for inpatient and crisis stabilization services.

**Early childhood solutions (improving developmental well-being and academic readiness of children ages 0-5):** CHS serves children, their caregivers and pregnant women, through a variety of early intervention and early education services: Healthy Families, Early Steps, Early Head Start, Healthy Start, and Bridges. CHS promotes healthy bonding, attachment and development through the implementation of evidence-based curricula in home visiting and center based settings. CHS' early childhood solutions are effective in helping children achieve school readiness by age 5, a key indicator in their future academic success.

**Community solutions (promoting safe communities and schools):** CHS serves communities and collaborates with multiple partners to create solutions, which support entire communities, such as youth employment, neighborhood engagement in educations (Bridges), and Community Partnership Schools. In these schools and services, CHS and partners work to remove barriers to learning (hunger, homelessness, illness), promote opportunities through enrichment activities during and after school, promote youth development and provide a solid foundation for academic instruction. In Community Partnership Schools, community leaders, parents, teachers and students have a voice in a shared governance model with a shared vision, goals and outcomes for the school and surrounding neighborhood. Results include increased graduation rates, improved school attendance, reduced disciplinary actions in schools and increased health and safety in the school and surrounding neighborhoods.

## 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)

**Community education:** CHS provides education, informational campaigns and presentations on CHS programs and solutions so those who may need services can easily access the help they need. Additionally, outreach and educational campaigns inform donors, partners and the general community about the significant need for solutions delivered by CHS, allowing CHS to raise awareness and funds, and to establish appropriate partnerships necessary to provide critical programs. CHS engages stakeholders, partners, clients and the general community in education and awareness of issues facing children and their families as well as the programs CHS provides that support behavioral health, child welfare, early education and prevention services. With awareness and education, communities are more likely to seek early engagement of assistance, preventing deeper-end interventions.

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 on investments, gain 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.

## 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)

**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 \$656,213 and \$1,063,112 at June 30, 2018 and 2017, respectively, reflects management's best estimate of uncollectible accounts.

**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, 2018 and 2017.

#### **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.

## 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)

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.

**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. Approximately 40% of revenue from service contracts came from funding that originated from one federal department.

**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 \$124,300 and \$334,400 for the years ended June 30, 2018 and 2017, 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 \$1,446,700 and \$1,736,400 for the years ended June 30, 2018 and 2017, respectively, which is included in bequests, contributions and special events in the accompanying consolidated statements of activities.

**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 (U.S. 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, 2015.

**Reclassifications:** Certain amounts in the 2017 consolidated financial statements have been reclassified in order to conform with the 2018 presentation. These reclassifications had no effect on the previously reported results of operations or cash flows.

**Recent accounting pronouncements:** In May 2014, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) No. 2014-09, *Revenue from Contracts with Customers (Topic 606)*, requiring an entity to recognize the amount of revenue to which it expects to be entitled for the transfer of promised goods or services to customers. The update will replace most existing revenue recognition guidance in U.S. GAAP when it becomes effective and permits the use of either a full retrospective or retrospective with cumulative effect transition method. The updated standard will become effective for annual reporting periods beginning after December 15, 2018. CHS has not yet selected a transition method and 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 No. 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. CHS is currently evaluating the impact this ASU will have on its consolidated financial statements.

The FASB has issued ASU No. 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's financial statements. The new guidance is effective for fiscal years beginning after December 15, 2017. 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.

## 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)

**Subsequent events:** Management has assessed subsequent events through October 31, 2018, the date the consolidated financial statements were available to be issued.

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

Temporarily restricted net assets consisted of the following at June 30, 2018 and 2017:

	2018	2017
Beneficial interest in the net assets of The Children's Home Society of Florida Foundation, Inc.	\$ 14,885,820	\$ 13,901,498
Beneficial interest in assets held by others – Community Foundation of Tampa Bay, Inc.	(97,594)	(92,343)
	<u>\$ 14,788,226</u>	<u>\$ 13,809,155</u>

As of June 30, 2018 and 2017, net assets of \$1,018,754 and \$1,241,509, respectively, were released from donor restrictions by incurring expenses satisfying the restricted purposes.

Permanently restricted net assets consisted of the following at June 30, 2018 and 2017:

	2018	2017
Beneficial interest in the net assets of The Children's Home Society of Florida Foundation, Inc.	\$ 8,973,184	\$ 8,824,792
Beneficial interest in assets held by others – Community Foundation of Tampa Bay, Inc.	960,572	960,572
	<u>\$ 9,933,756</u>	<u>\$ 9,785,364</u>

#### Note 3. Receivables

Receivables consisted of the following at June 30, 2018 and 2017:

	2018	2017
Community based care contracts	\$ 5,290,156	\$ 7,085,480
Other contracts	3,179,632	3,268,048
Government contracts	2,250,677	2,552,551
Pledges	1,674,072	1,495,346
Medicaid	976,830	1,060,663
	<u>13,371,367</u>	<u>15,462,088</u>
Less allowance for doubtful accounts	(656,213)	(1,063,112)
Less discount for time-value of money	(160,366)	(60,943)
	<u>\$ 12,554,788</u>	<u>\$ 14,338,033</u>

At June 30, 2018 and 2017, approximately 14.5% and 17.2%, respectively, of gross receivables are due from one funder.



## 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, 2018 and 2017, and are summarized as follows:

	2018	2017
Amounts due:		
Within one year	\$ 313,150	\$ 308,300
One to five years	1,076,875	984,298
More than five years	284,047	202,748
	<u>1,674,072</u>	<u>1,495,346</u>
Less allowance for doubtful accounts	(152,250)	(146,659)
Less discount for time-value of money	(160,366)	(60,943)
	<u>\$ 1,361,456</u>	<u>\$ 1,287,744</u>

#### Note 4. Investments

The fair value of investments at June 30, 2018 and 2017, consists of the following:

	2018	2017
Mutual funds:		
Large blend fund	\$ 6,152,107	\$ 5,587,097
Intermediate-term bond fund	2,486,391	2,481,669
Foreign large blend fund	1,981,350	1,829,703
Mid-cap growth fund	1,474,067	1,243,809
Moderated allocation fund	622,727	603,633
Multi-sector bond fund	554,740	545,829
Target date fund	209,615	270,174
Large growth fund	54,182	44,136
Short government fund	9,018	9,049
Small blend fund	-	15,315
Real estate investment trust	538,442	528,167
	<u>\$ 14,082,639</u>	<u>\$ 13,158,581</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, 2018 and 2017:

	2018	2017
Land	\$ 4,184,035	\$ 4,213,549
Buildings and improvements	39,335,286	39,525,240
Furniture and equipment	19,331,455	18,766,828
Leasehold improvements	1,002,765	1,088,451
	<u>63,853,541</u>	<u>63,594,068</u>
Less accumulated depreciation	(32,572,159)	(31,339,466)
	<u>\$ 31,281,382</u>	<u>\$ 32,254,602</u>

Depreciation and amortization expense of property and equipment for the years ended June 30, 2018 and 2017, was approximately \$2,109,000 and \$2,469,000, 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 U.S 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' 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 Children’s Home Society of Florida and Subsidiaries**

**Notes to Consolidated Financial Statements**

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

The tables below represent CHS’ financial assets measured at fair value on a recurring basis by level within the hierarchy at June 30, 2018 and 2017:

	2018			
	Fair Value Measurements Using			Total
	Level 1	Level 2	Level 3	
Investments:				
Mutual funds:				
Large blend fund	\$ 6,152,107	\$ -	\$ -	\$ 6,152,107
Intermediate-term bond fund	2,486,391	-	-	2,486,391
Foreign large blend fund	1,981,350	-	-	1,981,350
Mid-cap growth fund	1,474,067	-	-	1,474,067
Moderated allocation fund	622,727	-	-	622,727
Multi-sector bond fund	554,740	-	-	554,740
Target date fund	209,615	-	-	209,615
Large growth fund	54,182	-	-	54,182
Short government fund	9,018	-	-	9,018
Total investments in fair value hierarchy	13,544,197	-	-	13,544,197
Real estate investment trust measured at net asset value (a)	-	-	-	538,442
Total investments at fair value	\$ 13,544,197	\$ -	\$ -	\$ 14,082,639
Beneficial interest in assets held by others – Community Foundation of Tampa Bay, Inc.	\$ -	\$ -	\$ 862,978	\$ 862,978

The Children’s Home Society of Florida and Subsidiaries

Notes to Consolidated Financial Statements

Note 6. Fair Value Measurements (Continued)

	2017			
	Fair Value Measurements Using			Total
	Level 1	Level 2	Level 3	
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	<u>\$ 12,630,414</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 13,158,581</u>
Beneficial interest in assets held by others – Community Foundation of Tampa Bay, Inc.	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 868,229</u>	<u>\$ 868,229</u>

(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, 2018 and 2017:

	Fair Value	Unfunded Commitment	Redemption Frequency	Redemption Notice Period
<u>June 30, 2018</u>				
Real estate investment trust	<u>\$ 538,442</u>	<u>\$ -</u>	Daily	90 days
<u>June 30, 2017</u>				
Real estate investment trust	<u>\$ 528,167</u>	<u>\$ -</u>	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, 2018 and 2017:

	2018	2017
Balance, beginning of year	\$ 868,229	\$ 862,013
Net realized and unrealized gains	49,227	89,853
Interest and dividend income	14,883	20,378
Distributions to CHS	(61,985)	(97,665)
Investment manager and administrative fees	(7,376)	(6,350)
Balance, end of year	<u>\$ 862,978</u>	<u>\$ 868,229</u>

#### Note 7. Accrued Expenses

Accrued expenses consisted of the following at June 30, 2018 and 2017:

	2018	2017
Accrued salaries and benefits	\$ 3,550,960	\$ 4,313,902
Accrued vacation	2,190,758	2,162,391
Other	941,639	962,160
	<u>\$ 6,683,357</u>	<u>\$ 7,438,453</u>

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 \$625,700 and \$491,800 at June 30, 2018 and 2017, respectively.

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

### Notes to Consolidated Financial Statements

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

Debt and lines of credit consisted of the following at June 30, 2018 and 2017:

	2018	2017
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% (3.5% at June 30, 2018). 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.	\$ 13,120,320	\$ 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% (4.5% at June 30, 2018). 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.	2,789,285	3,221,429
Line of credit to a bank, with a maximum draw of \$1,000,000. The line of credit bears interest at a variable interest rate based on the one-month LIBOR interest rate plus 2.45% (4.45% at June 30, 2018) and is payable monthly. The line of credit matures on December 31, 2018, at which time, outstanding draws will be converted into a term loan with a maturity of up to five years. The line of credit is collateralized by substantially all the assets of CHS.	796,458	-
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>\$ 18,565,673</u>	<u>\$ 18,810,319</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 and lines of credit as of June 30, 2018, are as follows:

Years Ending June 30:	Amount
2019	\$ 1,932,207
2020	1,135,748
2021	1,135,748
2022	12,502,360
2023	-
Thereafter	1,859,610
	<u>\$ 18,565,673</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.

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 1.95% (3.95% at June 30, 2018). Interest on the line of credit is payable monthly and matures on December 1, 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, 2018 and 2017.

Under the terms of the agreements for the notes payable to a bank and the lines of credit, CHS is required to maintain certain financial covenants relating to fixed charge coverage ratio and minimum unrestricted liquidity coverage. As of June 30, 2018, CHS was not in compliance with the fixed charge coverage ratio covenant; however, a waiver of the event of noncompliance was received from the financial institution as of and for the year ended June 30, 2018.

## 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 \$2,588,000 and \$2,360,000 for the years ended June 30, 2018 and 2017, respectively.

Future minimum lease payments under these operating leases as of June 30, 2018, are as follows:

Years Ending June 30:	Amount
2019	\$ 2,358,841
2020	1,652,815
2021	1,201,614
2022	848,262
2023	621,058
Thereafter	442,782
	<u>\$ 7,125,372</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. Massachusetts Mutual 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, 2018 and 2017, lump sum settlement payments were \$4,972,108 and \$3,080,961, 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, 2018, and a statement of the funded status as of June 30, 2018 and 2017:

	2018	2017
Accumulated benefit obligation at end of year	<u>\$ 34,757,835</u>	<u>\$ 41,503,232</u>
Change in projected benefit obligation:		
Projected benefit obligation at beginning of year	\$ 41,503,232	\$ 44,971,701
Interest cost	1,323,220	1,332,445
Actuarial gain	(2,665,304)	(1,306,551)
Benefit payments	(431,205)	(413,402)
Lump sum settlement benefit payments	(4,972,108)	(3,080,961)
Projected benefit obligation at end of year	<u>\$ 34,757,835</u>	<u>\$ 41,503,232</u>
Change in fair value of plan assets:		
Fair value of plan assets at beginning of year	\$ 33,871,409	\$ 33,787,406
Actual return on plan assets	404,751	1,478,366
Employer contributions	-	2,100,000
Expenses	(545,823)	-
Benefit payments	(431,205)	(413,402)
Lump sum settlement benefit payments	(4,972,108)	(3,080,961)
Fair value of plan assets at end of year	<u>\$ 28,327,024</u>	<u>\$ 33,871,409</u>
Unfunded status at end of year	<u>\$ (6,430,811)</u>	<u>\$ (7,631,823)</u>

The unfunded status as of June 30, 2018 and 2017, of \$6,430,811 and \$7,631,823, 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, 2018 and 2017, are as follows:

	2018	2017
Net actuarial gain	\$ (936,137)	\$ (849,307)
Amortization of actuarial loss	(1,141,607)	(1,465,114)
Amount recognized due to settlement	(1,357,527)	(959,731)
Pension related changes other than net periodic benefit cost	<u>\$ (3,435,271)</u>	<u>\$ (3,274,152)</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, 2018 and 2017:

	2018			
	Fair Value Measurements Using			Total
	Level 1	Level 2	Level 3	
Equity securities:				
Pooled separate accounts:				
Domestic equities	\$ -	\$ 5,560,557	\$ -	\$ 5,560,557
International equities	-	4,475,570	-	4,475,570
Debt securities:				
Pooled separate accounts:				
Long government bond fund	-	2,188,513	-	2,188,513
Long-term bond fund	-	16,102,384	-	16,102,384
	<u>\$ -</u>	<u>\$ 28,327,024</u>	<u>\$ -</u>	<u>\$ 28,327,024</u>
	2017			
	Fair Value Measurements Using			Total
	Level 1	Level 2	Level 3	
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>

CHS' pension plan weighted-average asset allocations at June 30, 2018 and 2017, by asset category are as follows:

	Target	Percentage of Plan	
	Allocation	Assets at June 30,	
	2019	2018	2017
Equity securities	30%	35%	40%
Debt securities	70%	65%	60%
	<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 6.0%, which reflects the average rate of earnings that CHS estimates will be generated on the assets of the Plan.

**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 2018 and 2017 are as follows:

	2018	2017
Interest cost	\$ 1,323,220	\$ 1,332,445
Expected return on plan assets	(1,588,095)	(1,935,610)
Amortization of actuarial loss	1,141,607	1,465,114
Amount recognized due to settlement	1,357,527	959,731
Net periodic benefit cost	<u>\$ 2,234,259</u>	<u>\$ 1,821,680</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, 2019, are \$0.

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

Years Ending June 30:	Amount
2019	\$ 2,603,755
2020	1,704,950
2021	3,107,589
2022	2,197,762
2023	2,929,474
2024 – 2028	11,470,162

## 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:

	2018	2017
Weighted-average assumptions as of June 30:		
Discount rate	3.90%	3.40%
Expected return on plan assets	6.00%	6.50%
Rate of compensation increase	N/A	N/A
	2018	2017
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, 2018	June 30, 2017

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 \$1,285,000 and \$1,146,000, respectively, for the years ended June 30, 2018 and 2017.

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, 2018 and 2017.

#### 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, 2018 and 2017:

	2018	2017
Beneficial interest in the net assets of The Children's Home Society of Florida Foundation, Inc., reported on the equity method	\$ 23,859,004	\$ 22,726,290
Beneficial interest in assets held by others – Community Foundation of Tampa Bay, Inc., reported at fair value	862,978	868,229
	<u>\$ 24,721,982</u>	<u>\$ 23,594,519</u>

At June 30, 2018 and 2017, CHS's beneficial interest in the net assets of The Children's Home Society of Florida Foundation, Inc. (Foundation) was \$23,859,004 and \$22,726,290, 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 \$1,972,674 and \$2,575,139, net of distributions to CHS of \$988,352 and \$1,184,120, for the years ended June 30, 2018 and 2017, 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 \$148,392 and \$28,874 for the years ended June 30, 2018 and 2017, respectively, which is included in the accompanying consolidated statements of activities.

At June 30, 2018 and 2017, 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, 2018 and 2017, the endowment fund has a fair value of \$862,978 and \$868,229, 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 \$(5,251) and \$6,216 for the years ended June 30, 2018 and 2017, 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, 2018 and 2017.

**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, 2018, 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, 2018.

**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, 2018