

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

Consolidated Financial Report  
June 30, 2016 and 2015

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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, 2016 and 2015, 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, 2016 and 2015, 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 reports dated October 28, 2016 and October 29, 2015 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 these reports 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 internal control over financial reporting or on compliance. These reports are 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 28, 2016

The Children's Home Society of Florida and Subsidiaries

Consolidated Statements of Financial Position  
June 30, 2016 and 2015

	2016	2015
<b>Assets</b>		
Cash and cash equivalents	\$ 4,334,793	\$ 4,220,842
Receivables, net	13,561,792	16,694,323
Prepaid expenses and other assets	2,338,178	2,553,814
Investments	11,891,646	11,951,096
Beneficial interests	22,168,410	22,756,076
Property and equipment, net	34,879,857	36,480,726
<b>Total assets</b>	<b>\$ 89,174,676</b>	<b>\$ 94,656,877</b>
<b>Liabilities and Net Assets</b>		
Liabilities		
Accounts payable	\$ 1,473,077	\$ 1,483,884
Accrued expenses	8,295,562	6,566,795
Deferred revenue and other liabilities	1,158,300	1,757,176
Pension liability	11,184,295	9,434,735
Held in custody for account of others	220,695	288,947
Fair value of interest rate swap	4,433,060	3,307,651
Debt	16,069,610	16,419,610
<b>Total liabilities</b>	<b>42,834,599</b>	<b>39,258,798</b>
Commitments and Contingencies (Notes 9, 10, 11 and 12)		
Net Assets		
Unrestricted	24,171,667	32,642,003
Temporarily restricted	12,411,920	13,328,463
Permanently restricted	9,756,490	9,427,613
<b>Total net assets</b>	<b>46,340,077</b>	<b>55,398,079</b>
<b>Total liabilities and net assets</b>	<b>\$ 89,174,676</b>	<b>\$ 94,656,877</b>

See notes to consolidated financial statements.

The Children's Home Society of Florida and Subsidiaries

Consolidated Statements of Activities

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

(Continued)

The Children's Home Society of Florida and Subsidiaries

Consolidated Statements of Activities (Continued)

Year Ended June 30, 2015

	2015			Total
	Unrestricted	Temporarily Restricted	Permanently Restricted	
Operating Public Support, Revenues and Other Support				
Operating public support:				
United Way	\$ 1,724,399	\$ -	\$ -	\$ 1,724,399
Bequests, contributions and special events	10,730,479	106,944	-	10,837,423
<b>Total operating public support</b>	12,454,878	106,944	-	12,561,822
Revenue from service contracts	102,812,220	-	-	102,812,220
Adoptive and other service fees	708,739	-	-	708,739
Investment income	452,694	-	-	452,694
Other revenue	1,430,299	-	-	1,430,299
<b>Total operating public support and revenues</b>	117,858,830	106,944	-	117,965,774
Net assets released from restrictions by satisfaction of program restrictions	586,575	(586,575)	-	-
<b>Total operating public support, revenues and other support</b>	118,445,405	(479,631)	-	117,965,774
Operating Expenses				
Program services	101,190,343	-	-	101,190,343
Supporting services:				
Management and general	13,204,472	-	-	13,204,472
Fundraising	4,660,859	-	-	4,660,859
<b>Total supporting services</b>	17,865,331	-	-	17,865,331
<b>Total operating expenses</b>	119,055,674	-	-	119,055,674
<b>Decrease in net assets from operations</b>	(610,269)	(479,631)	-	(1,089,900)
Other Changes				
Change in beneficial interests	-	976,854	91,559	1,068,413
Net realized and unrealized losses on investments	(78,363)	-	-	(78,363)
Loss on interest rate swap	(237,027)	-	-	(237,027)
Pension related changes other than net periodic benefit cost	(1,077,327)	-	-	(1,077,327)
<b>(Decrease) increase in other changes</b>	(1,392,717)	976,854	91,559	(324,304)
<b>(Decrease) increase in net assets</b>	(2,002,986)	497,223	91,559	(1,414,204)
Net Assets				
Beginning	34,644,989	12,831,240	9,336,054	56,812,283
Ending	\$ 32,642,003	\$ 13,328,463	\$ 9,427,613	\$ 55,398,079

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 Functional Expenses

Year Ended June 30, 2015

	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	\$ 740,694	\$ 1,656,115	\$ 752,567	\$ 2,789,330	\$ 50,295	\$ 4,168,297	\$ 864,905
Employee benefits	113,363	227,239	108,506	392,774	7,646	573,891	122,196
Payroll taxes and other	59,006	150,783	65,628	247,890	4,457	371,233	72,823
<b>Total salaries and related expenses</b>	<b>913,063</b>	<b>2,034,137</b>	<b>926,701</b>	<b>3,429,994</b>	<b>62,398</b>	<b>5,113,421</b>	<b>1,059,924</b>
Professional fees	115,731	8,435	117,341	67,695	294	33,428	27,859
Supplies	4,042	9,354	6,710	19,535	191	70,625	10,309
Telephone	29,308	35,959	27,125	68,942	748	84,749	26,004
Postage and shipping	164	8,694	1,403	6,584	58	12,406	5,095
Occupancy	46,803	185,673	108,335	210,822	8,241	380,054	137,862
Rental and maintenance of equipment	6,377	42,496	38,336	34,713	152	101,638	4,494
Printing and publications	668	1,703	6,449	6,821	7	8,524	488
Travel	20,996	111,998	47,039	181,239	803	343,706	38,230
Conferences, conventions and meetings	13,288	6,157	4,010	9,731	38	6,851	2,621
Specific assistance to individuals	1,814	106,084	52,894	63,253	118	47,743	19,775
Membership dues	654	2,034	1,049	5,137	47	24,910	1,116
Interest	-	-	-	-	-	-	-
Insurance	3,256	15,634	10,257	47,051	489	48,361	10,057
Provision for bad debt	-	220	-	2,589	-	3,802	-
Contributed goods	-	40,086	73,559	76,426	1,550	492,086	6,383
Other	991	35,676	106,749	28,989	109	22,967	3,645
<b>Total before depreciation and amortization</b>	<b>244,092</b>	<b>610,203</b>	<b>601,256</b>	<b>829,527</b>	<b>12,845</b>	<b>1,681,850</b>	<b>293,938</b>
Depreciation and amortization	2,174	57,122	20,023	17,035	79	21,035	5,594
<b>Total expenses</b>	<b>\$ 1,159,329</b>	<b>\$ 2,701,462</b>	<b>\$ 1,547,980</b>	<b>\$ 4,276,556</b>	<b>\$ 75,322</b>	<b>\$ 6,816,306</b>	<b>\$ 1,359,456</b>

(Continued)

The Children's Home Society of Florida and Subsidiaries

Consolidated Statements of Functional Expenses (Continued)

Year Ended June 30, 2015

	Program Services						
	Daycare	Case Management/ Development Services	Case Management/ Mental Health	Home-Based Family Centered Casework	Homemaker	Intensive Family Preservation	Emergency Shelter/ Runaway
Salaries	\$ 451,232	\$ 19,288,448	\$ 11,061,580	\$ 478,348	\$ 523,214	\$ 2,676,792	\$ 2,099,655
Employee benefits	11,329	2,683,957	1,537,630	67,910	78,672	377,616	292,724
Payroll taxes and other	46,986	1,735,597	992,702	41,409	47,041	241,688	191,586
<b>Total salaries and related expenses</b>	<b>509,547</b>	<b>23,708,002</b>	<b>13,591,912</b>	<b>587,667</b>	<b>648,927</b>	<b>3,296,096</b>	<b>2,583,965</b>
Professional fees	22,324	659,537	96,063	5,534	1,158	14,473	17,024
Supplies	3,672	119,284	73,396	4,956	3,374	15,158	24,197
Telephone	9,743	315,318	303,535	8,419	11,692	50,130	41,460
Postage and shipping	267	34,645	15,877	334	1,755	2,445	2,765
Occupancy	89,016	867,734	1,218,133	67,540	59,900	287,841	244,070
Rental and maintenance of equipment	3,736	55,311	100,064	5,556	5,170	26,587	23,777
Printing and publications	594	7,320	8,629	167	154	7,725	1,892
Travel	12,824	1,863,929	633,173	27,637	34,752	183,448	118,964
Conferences, conventions and meetings	684	30,349	21,881	1,498	556	5,036	2,557
Specific assistance to individuals	73,547	1,803,812	504,019	17,753	1,098	69,965	185,028
Membership dues	649	24,924	22,760	2,953	703	3,912	17,036
Interest	-	-	-	-	-	-	-
Insurance	6,581	370,823	177,469	6,751	4,997	29,632	35,278
Provision for bad debt	-	5,631	17,709	-	-	1,106	4,958
Contributed goods	757	233,264	139,235	20,799	377	64,995	14,127
Other	10,883	171,185	46,406	2,254	1,347	8,780	13,211
<b>Total before depreciation and amortization</b>	<b>235,277</b>	<b>6,563,066</b>	<b>3,378,349</b>	<b>172,151</b>	<b>127,033</b>	<b>771,233</b>	<b>746,344</b>
Depreciation and amortization	4,576	47,172	77,556	3,849	2,097	15,839	37,782
<b>Total expenses</b>	<b>\$ 749,400</b>	<b>\$ 30,318,240</b>	<b>\$ 17,047,817</b>	<b>\$ 763,667</b>	<b>\$ 778,057</b>	<b>\$ 4,083,168</b>	<b>\$ 3,368,091</b>

(Continued)

The Children's Home Society of Florida and Subsidiaries

Consolidated Statements of Functional Expenses (Continued)

Year Ended June 30, 2015

	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	\$ 6,227,637	\$ 574,102	\$ 4,482,219	\$ 2,840,479	\$ 61,725,909	\$ 6,450,140	\$ 2,154,225	\$ 8,604,365	\$ 70,330,274
Employee benefits	858,055	82,843	624,673	405,630	8,566,654	865,487	318,116	1,183,603	9,750,257
Payroll taxes and other	556,460	51,408	405,627	237,419	5,519,743	474,127	173,137	647,264	6,167,007
<b>Total salaries and related expenses</b>	<b>7,642,152</b>	<b>708,353</b>	<b>5,512,519</b>	<b>3,483,528</b>	<b>75,812,306</b>	<b>7,789,754</b>	<b>2,645,478</b>	<b>10,435,232</b>	<b>86,247,538</b>
Professional fees	148,863	7,570	25,832	41,483	1,410,644	562,517	278,325	840,842	2,251,486
Supplies	33,125	7,584	32,470	43,862	481,844	43,507	42,506	86,013	567,857
Telephone	92,165	20,311	131,725	61,344	1,318,677	529,629	92,722	622,351	1,941,028
Postage and shipping	10,350	824	3,675	5,457	112,798	21,753	14,345	36,098	148,896
Occupancy	461,783	111,326	780,775	269,876	5,535,784	446,153	152,010	598,163	6,133,947
Rental and maintenance of equipment	40,163	8,040	65,617	73,467	635,694	113,442	13,278	126,720	762,414
Printing and publications	3,528	178	3,542	27,091	85,480	31,628	77,906	109,534	195,014
Travel	442,686	26,789	356,703	190,536	4,635,452	330,442	128,531	458,973	5,094,425
Conferences, conventions and meetings	7,237	280	14,680	77,238	204,692	80,839	23,775	104,614	309,306
Specific assistance to individuals	3,259,764	2,741	840,083	108,657	7,158,148	9,059	375,482	384,541	7,542,689
Membership dues	6,410	809	6,344	7,325	128,772	107,125	9,985	117,110	245,882
Interest	-	-	-	-	-	560,122	-	560,122	560,122
Insurance	116,756	7,201	75,936	24,268	990,797	41,984	15,127	57,111	1,047,908
Provision for bad debt	2,528	-	10,921	-	49,464	376,621	-	376,621	426,085
Contributed goods	70,209	14,336	106,663	58,010	1,412,862	5,917	205,423	211,340	1,624,202
Other	81,114	(104,617)	29,257	49,907	508,853	241,355	550,452	791,807	1,300,660
<b>Total before depreciation and amortization</b>	<b>4,776,681</b>	<b>103,372</b>	<b>2,484,223</b>	<b>1,038,521</b>	<b>24,669,961</b>	<b>3,502,093</b>	<b>1,979,867</b>	<b>5,481,960</b>	<b>30,151,921</b>
Depreciation and amortization	149,654	11,479	182,031	52,979	708,076	1,912,625	35,514	1,948,139	2,656,215
<b>Total expenses</b>	<b>\$ 12,568,487</b>	<b>\$ 823,204</b>	<b>\$ 8,178,773</b>	<b>\$ 4,575,028</b>	<b>\$101,190,343</b>	<b>\$ 13,204,472</b>	<b>\$ 4,660,859</b>	<b>\$ 17,865,331</b>	<b>\$ 119,055,674</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, 2016 and 2015

	2016	2015
Cash Flows From Operating Activities		
Decrease in net assets	\$ (9,058,002)	\$ (1,414,204)
Adjustments to reconcile decrease in net assets to net cash provided by (used in) operating activities:		
Depreciation and amortization	2,650,929	2,656,215
Net realized and unrealized losses on investments	462,149	78,363
Loss on interest rate swap	1,125,409	237,027
Change in beneficial interests	587,666	(588,782)
Pension related changes other than net periodic benefit cost	2,313,970	1,077,327
Contribution of property and equipment	-	(1,576,307)
Gain on sale/disposal of property and equipment	(21,559)	(219,755)
Provision for doubtful accounts	1,803,308	426,085
Changes in operating assets and liabilities:		
Receivables	1,329,223	(3,422,713)
Prepaid expenses and other assets	215,636	(185,629)
Accounts payable	(10,807)	(33,654)
Accrued expense	1,728,767	1,079,946
Deferred revenue and other liabilities	(598,876)	(22,405)
Pension liability	(564,410)	(573,219)
<b>Net cash provided by (used in) operating activities</b>	<b>1,963,403</b>	<b>(2,481,705)</b>
Cash Flows From Investing Activities		
Purchases of property and equipment	(1,306,613)	(1,967,595)
Proceeds from sale of property and equipment	209,860	599,881
Proceeds from sale of investments	672,228	1,206,114
Purchases of investments	(1,074,927)	(1,544,881)
<b>Net cash used in investing activities</b>	<b>(1,499,452)</b>	<b>(1,706,481)</b>
Cash Flows From Financing Activities		
Principal payments on debt	(350,000)	(335,000)
<b>Net cash used in financing activities</b>	<b>(350,000)</b>	<b>(335,000)</b>
<b>Net increase (decrease) in cash and cash equivalents</b>	<b>113,951</b>	<b>(4,523,186)</b>
Cash and Cash Equivalents		
Beginning	4,220,842	8,744,028
Ending	\$ 4,334,793	\$ 4,220,842
Supplemental disclosures of cash flow information:		
Cash paid during the year for interest	\$ 568,388	\$ 561,346

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 not-for-profit 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 losses on investments, 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 \$778,875 and \$786,082 at June 30, 2016 and 2015, 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 their 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, 2016 and 2015.

#### **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 \$268,800 and \$122,800 for the years ended June 30, 2016 and 2015, 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 \$2,004,900 and \$1,624,200 for the years ended June 30, 2016 and 2015, 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 has two interest rate swap agreements in place at June 30, 2016 and 2015. These interest rate swap agreements have 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, 2013.

**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 interim periods within fiscal years beginning after December 15, 2020. Early application is permitted. CHS has not evaluated the impact this ASU will have on CHS' 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 financial position or activities in the near term.

**Subsequent events:** Management has assessed subsequent events through October 28, 2016, 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, 2016 and 2015:

	2016	2015
Beneficial interest in the net assets of The Children's Home Society of Florida Foundation, Inc.	\$ 12,510,479	\$ 13,296,883
Beneficial interest in assets held by others – Community Foundation of Tampa Bay, Inc.	(98,559)	31,580
	<u>\$ 12,411,920</u>	<u>\$ 13,328,463</u>

As of June 30, 2016 and 2015, net assets of \$1,251,696 and \$586,575, respectively, were released from donor restrictions by incurring expenses satisfying the restricted purposes.

Permanently restricted net assets consisted of the following at June 30, 2016 and 2015:

	2016	2015
Beneficial interest in the net assets of The Children's Home Society of Florida Foundation, Inc.	\$ 8,795,918	\$ 8,467,041
Beneficial interest in assets held by others – Community Foundation of Tampa Bay, Inc.	960,572	960,572
	<u>\$ 9,756,490</u>	<u>\$ 9,427,613</u>

#### Note 3. Receivables

Receivables consisted of the following at June 30, 2016 and 2015:

	2016	2015
Community based care contracts	\$ 6,817,697	\$ 8,783,325
Government contracts	2,371,185	2,317,678
Other contracts	2,177,663	2,679,401
Pledges	1,574,086	1,425,711
Medicaid	1,449,917	2,349,648
	14,390,548	17,555,763
Less allowance for doubtful accounts	(778,875)	(786,082)
Less discount for time-value of money	(49,881)	(75,358)
	<u>\$ 13,561,792</u>	<u>\$ 16,694,323</u>

Medicaid accounted for 7.3% and 11.3% of net receivables at June 30, 2016 and 2015, respectively.

## 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, 2016 and 2015, and are summarized as follows:

	2016	2015
Amounts due:		
Within one year	\$ 237,360	\$ 206,327
One to five years	882,358	715,868
More than five years	454,368	503,516
	<u>1,574,086</u>	<u>1,425,711</u>
Less allowance for doubtful accounts	(84,401)	(91,608)
Less discount for time-value of money	(49,881)	(75,358)
	<u>\$ 1,439,804</u>	<u>\$ 1,258,745</u>

#### Note 4. Investments

The fair value of investments at June 30, 2016 and 2015, consists of the following:

	2016	2015
Mutual funds:		
Large blend fund	\$ 4,694,839	\$ 4,898,137
Intermediate-term bond fund	2,403,800	2,599,407
Foreign large blend fund	1,539,018	1,701,410
Mid-cap growth fund	1,075,480	1,001,802
Moderated allocation fund	562,637	544,390
Multi-sector bond fund	502,450	475,538
Target date fund	479,629	598,954
Large growth fund	39,985	39,818
Mid-cap blend fund	26,645	26,410
Retirement income fund	22,893	45,124
Small blend fund	13,548	13,610
Short government fund	9,181	6,496
Real estate investment trust	521,541	-
	<u>\$ 11,891,646</u>	<u>\$ 11,951,096</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, 2016 and 2015:

	2016	2015
Land	\$ 4,827,402	\$ 4,827,402
Buildings and improvements	41,330,997	40,669,652
Furniture and equipment	24,279,695	24,019,345
Leasehold improvements	1,314,788	1,314,788
	<u>71,752,882</u>	<u>70,831,187</u>
Less accumulated depreciation	(36,873,025)	(34,350,461)
	<u>\$ 34,879,857</u>	<u>\$ 36,480,726</u>

Depreciation and amortization expense of property and equipment for the years ended June 30, 2016 and 2015, was approximately \$2,651,000 and \$2,656,000, 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 accounting principles generally accepted in the United States of America, 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 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 net asset value (NAV) per share as a practical expedient, as provided by the investment manager. CHS receives audited financial statements annually and unaudited performance reports quarterly during the year. Since redemptions under the real estate investment trust can be made daily with a 90-day notice period, the investment is 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 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, 2016 and 2015:

	2016			
	Fair Value Measurements Using			
	Level 1	Level 2	Level 3	Total
Investments in securities:				
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
Real estate investment trust	-	521,541	-	521,541
Total	11,370,105	521,541	-	11,891,646
Beneficial interest in assets held by others – Community Foundation of Tampa Bay, Inc.	-	-	862,013	862,013
Total	\$ 11,370,105	\$ 521,541	\$ 862,013	\$ 12,753,659
Liabilities:				
Interest rate swap obligation	\$ -	\$ 4,433,060	\$ -	\$ 4,433,060

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

**Notes to Consolidated Financial Statements**

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

	2015			
	Fair Value Measurements Using			
	Level 1	Level 2	Level 3	Total
Investments in securities:				
Mutual funds:				
Large blend fund	\$ 4,898,137	\$ -	\$ -	\$ 4,898,137
Intermediate-term bond fund	2,599,407	-	-	2,599,407
Foreign large blend fund	1,701,410	-	-	1,701,410
Mid-cap growth fund	1,001,802	-	-	1,001,802
Target date fund	598,954	-	-	598,954
Moderate allocation fund	544,390	-	-	544,390
Multi-sector bond fund	475,538	-	-	475,538
Retirement income fund	45,124	-	-	45,124
Large growth fund	39,818	-	-	39,818
Mid-cap blend fund	26,410	-	-	26,410
Small blend fund	13,610	-	-	13,610
Short government fund	6,496	-	-	6,496
Total	11,951,096	-	-	11,951,096
Beneficial interest in assets held by others – Community Foundation of Tampa Bay, Inc.	-	-	992,152	992,152
Total	\$ 11,951,096	\$ -	\$ 992,152	\$ 12,943,248
Liabilities:				
Interest rate swap obligation	\$ -	\$ 3,307,651	\$ -	\$ 3,307,651

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, 2016:

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

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

### Notes to Consolidated Financial Statements

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

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, 2016 and 2015:

	2016	2015
Balance, beginning of year	\$ 992,152	\$ 1,195,575
Net realized and unrealized losses	(77,962)	(67,440)
Interest and dividend income	56,364	47,874
Distributions to CHS	(102,133)	(175,746)
Investment manager and administrative fees	(6,408)	(8,111)
Balance, end of year	<u>\$ 862,013</u>	<u>\$ 992,152</u>

#### Note 7. Accrued Expenses

Accrued expenses consisted of the following at June 30, 2016 and 2015:

	2016	2015
Accrued salaries and benefits	\$ 4,897,877	\$ 4,295,763
Accrued vacation	2,541,738	2,123,244
Other	855,947	147,788
	<u>\$ 8,295,562</u>	<u>\$ 6,566,795</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 \$547,400 and \$463,700 at June 30, 2016 and 2015, respectively.



## 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

Debt consisted of the following at June 30, 2016 and 2015:

	2016	2015
Bonds payable dated April 1, 2008, with an original principal balance of \$16,680,000. The bonds bear interest at a variable interest rate based on the one-month LIBOR interest rate (.47% at June 30, 2016). CHS entered into two interest rate swap agreements that fixed the interest rate at 4.39% and 3.20% (see disclosure below). The bonds mature on May 1, 2038. The bonds are redeemable by CHS in whole or in part, and call for quarterly partial redemption payments deposited into an escrow account. The bonds are collateralized by a letter of credit (see Note 9).	\$ 14,210,000	\$ 14,560,000
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>\$ 16,069,610</u>	<u>\$ 16,419,610</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, assuming that the letter of credit (see Note 9) is renewed over the term of the bonds payable, as of June 30, 2016, are as follows:

Years Ending June 30:	Amount
2017	\$ 370,000
2018	385,000
2019	405,000
2020	425,000
2021	450,000
Thereafter	14,034,610
	<u>\$ 16,069,610</u>

If the letter of credit is not renewed on March 31, 2017, the entire amount of the bonds payable (\$13,840,000) would be due and payable at that time.

Effective October 2005 and April 2008, CHS entered into two interest rate swap agreements with a notional amount that decreases every six months (\$7,085,000 and \$7,125,000, respectively, at June 30, 2016). Under the terms of the agreements, CHS owes interest calculated at a fixed interest rate of 4.39% and 3.20%, respectively, and receives interest calculated at a variable rate based on the one-month LIBOR interest rate (.47% at June 30, 2016). The swap agreements terminate in May 2032 and May 2038, respectively. For the years ended June 30, 2016 and 2015, the interest rate swaps had a total negative fair value of \$4,433,060 and \$3,307,651, respectively, resulting in a loss of \$1,125,409 and \$237,027, respectively, which is reflected in the accompanying consolidated statements of activities. If the letter of credit is not renewed on March 31, 2017, the entire amount of the interest rate swap agreements would be due and payable at that time.

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% (2.07% at June 30, 2016). Interest on the line of credit is payable monthly and is due on demand. The line of credit is collateralized by substantially all investments of CHS. There was no outstanding balance on the line of credit at June 30, 2016 and 2015.

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% (3.47% at June 30, 2016). Interest on the line of credit is payable monthly and is due on demand. The line of credit is unsecured. There was no outstanding balance on the line of credit at June 30, 2016 and 2015.

#### Note 9. Letter of Credit

CHS entered into a letter of credit agreement to support the \$16,680,000 bonds payable (see Note 8). The letter of credit, if drawn, bears interest at 15% per annum. Under the terms of the letter of credit agreement, CHS is required to maintain certain financial covenants relating to fixed charge coverage ratio, unrestricted net assets coverage and unrestricted, unencumbered liquid assets coverage. As of June 30, 2016, 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, 2016. As of June 30, 2016 and 2015, no amount has been drawn on the letter of credit. The letter of credit expires on March 31, 2017 (see Note 8).

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

### Notes to Consolidated Financial Statements

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#### Note 10. 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 \$2,865,000 and \$2,943,000 for the years ended June 30, 2016 and 2015, respectively.

Future minimum lease payments under these operating leases as of June 30, 2016, are as follows:

<u>Years Ending June 30:</u>	<u>Amount</u>
2017	\$ 2,007,727
2018	1,961,456
2019	1,582,115
2020	1,230,759
2021	772,534
Thereafter	1,467,879
	<u><u>\$ 9,022,470</u></u>

Subsequent to June 30, 2016, CHS entered into a new corporate office operating lease agreement effective February 2017. The above future minimum lease payments schedule, includes the new corporate office operating lease agreement.

#### Note 11. 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, 2016 and 2015, lump sum settlement payments were \$2,078,695 and \$2,864,992 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 11. 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, 2016, and a statement of the funded status as of June 30, 2016 and 2015:

	2016	2015
Accumulated benefit obligation at end of year	<u>\$ 44,971,701</u>	<u>\$ 41,619,153</u>
Change in projected benefit obligation:		
Projected benefit obligation at beginning of year	\$ 41,619,153	\$ 41,820,716
Interest cost	1,588,437	1,531,902
Actuarial loss	4,250,919	1,477,278
Benefit payments	(408,113)	(345,751)
Lump sum settlement benefit payments	(2,078,695)	(2,864,992)
Projected benefit obligation at end of year	<u>\$ 44,971,701</u>	<u>\$ 41,619,153</u>
Change in fair value of plan assets:		
Fair value of plan assets at beginning of year	\$ 32,184,418	\$ 32,890,089
Actual return on plan assets	1,989,796	405,072
Employer contributions	2,100,000	2,100,000
Benefit payments	(408,113)	(345,751)
Lump sum settlement benefit payments	(2,078,695)	(2,864,992)
Fair value of plan assets at end of year	<u>\$ 33,787,406</u>	<u>\$ 32,184,418</u>
Unfunded status at end of year	<u>\$ (11,184,295)</u>	<u>\$ (9,434,735)</u>

The unfunded status as of June 30, 2016 and 2015 of \$11,184,295 and \$9,434,735, 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, 2016 and 2015, are as follows:

	2016	2015
Net actuarial loss	\$ 4,283,801	\$ 3,132,749
Amortization of actuarial loss	(1,220,520)	(1,099,371)
Amount recognized due to settlement	(749,311)	(956,051)
Pension related changes other than net periodic benefit cost	<u>\$ 2,313,970</u>	<u>\$ 1,077,327</u>

**The Children’s Home Society of Florida and Subsidiaries**

**Notes to Consolidated Financial Statements**

**Note 11. 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, 2016 and 2015:

	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>
	2015			
	Fair Value Measurements Using			
	Level 1	Level 2	Level 3	Total
Equity securities:				
Mutual funds:				
Domestic equities	\$ 11,364,311	\$ -	\$ -	\$ 11,364,311
International equities	2,590,510	-	-	2,590,510
Debt securities:				
Government bond fund – pooled separate accounts	-	1,657,744	-	1,657,744
Bond fund – pooled separate accounts	-	16,571,853	-	16,571,853
	<u>\$ 13,954,821</u>	<u>\$ 18,229,597</u>	<u>\$ -</u>	<u>\$ 32,184,418</u>

CHS’ pension plan weighted-average asset allocations at June 30, 2016 and 2015, by asset category are as follows:

	Target	Percentage of Plan	
	Allocation	Assets at June 30,	
	2017	2016	2015
Equity securities	55%	35%	43%
Debt securities	45%	65%	57%
	<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 11. Retirement Plans (Continued)

**Expected return on plan assets:** The expected rate of return on Plan assets is 7.0%. CHS expects 7.0% 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 2016 and 2015, are as follows:

	2016	2015
Interest cost	\$ 1,588,437	\$ 1,531,902
Expected return on plan assets	(2,022,678)	(2,060,543)
Amortization of actuarial loss	1,220,620	1,099,371
Effect of settlement	749,311	956,051
Net periodic benefit cost	<u>\$ 1,535,690</u>	<u>\$ 1,526,781</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
2017	\$ 2,570,000
2018	2,120,000
2019	2,740,000
2020	1,840,000
2021	3,230,000
2022 – 2026	12,680,000

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

### Notes to Consolidated Financial Statements

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#### Note 11. Retirement Plans (Continued)

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

	2016	2015
Weighted-average assumptions as of June 30:		
Discount rate	3.05%	3.90%
Expected return on plan assets	7.00%	7.00%
Rate of compensation increase	N/A	N/A
	2016	2015
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, 2016	June 30, 2015

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 10 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 3 years of service. Employer contributions were approximately \$1,285,000 and \$1,186,000, respectively, for the years ended June 30, 2016 and 2015.

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. Employer contributions were approximately \$0 and \$18,500, respectively, for the years ended June 30, 2016 and 2015.

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, 2016 and 2015.

#### Note 12. 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' 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 13. Beneficial Interests

Beneficial interests consisted of the following at June 30, 2016 and 2015:

	<u>2016</u>	<u>2015</u>
Beneficial interest in the net assets of The Children's Home Society of Florida Foundation, Inc.	\$ 21,306,397	\$ 21,763,924
Beneficial interest in assets held by others – Community Foundation of Tampa Bay, Inc.	862,013	992,152
	<u>\$ 22,168,410</u>	<u>\$ 22,756,076</u>

At June 30, 2016 and 2015, CHS's beneficial interest in the net assets of The Children's Home Society of Florida Foundation, Inc. (Foundation) was \$21,306,397 and \$21,763,924, 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 \$286,063 and \$1,180,264, net of distributions to CHS (contributions to the Foundation) of \$1,072,467 and \$479,618, for the years ended June 30, 2016 and 2015, 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 \$328,877 and \$91,559 for the years ended June 30, 2016 and 2015, respectively, which is included in the accompanying consolidated statements of activities.

At June 30, 2016 and 2015, 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, 2016 and 2015, the endowment fund has a fair value of \$862,013 and \$992,152, 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 (\$130,139) and (\$203,423) for the years ended June 30, 2016 and 2015, 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, 2016 and 2015.



**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 statements of financial position as of June 30, 2016, 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 28, 2016.

**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 28, 2016