

The Children's Home Society of Florida and Subsidiaries

Consolidated Financial Report
June 30, 2015 and 2014

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RSM US LLP

Independent Auditor's Report

To the Audit Committee
The Children's Home Society of Florida
Winter Park, 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, 2015 and 2014, 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, 2015 and 2014, 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 29, 2015 and October 31, 2014 on our consideration of The Children's Home Society of Florida's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of 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's internal control over financial reporting and compliance.

RSM US LLP

Orlando, Florida
October 29, 2015

The Children's Home Society of Florida and Subsidiaries

Consolidated Statements of Financial Position
June 30, 2015 and 2014

	2015	2014
Assets		
Cash and cash equivalents	\$ 4,220,842	\$ 8,744,028
Receivables, net	16,694,323	13,697,695
Prepaid expenses and other assets	2,553,814	2,368,185
Investments	11,951,096	11,690,692
Beneficial interests	22,756,076	22,167,294
Property and equipment, net	36,480,726	35,990,751
Total assets	\$ 94,656,877	\$ 94,658,645
Liabilities and Net Assets		
Liabilities		
Accounts payable	\$ 1,483,884	\$ 1,517,538
Accrued expenses	6,566,795	5,486,849
Deferred revenue and other liabilities	1,757,176	1,779,581
Pension liability	9,434,735	8,930,627
Held in custody for account of others	288,947	306,533
Fair value of interest rate swap	3,307,651	3,070,624
Debt	16,419,610	16,754,610
Total liabilities	39,258,798	37,846,362
Commitments and Contingencies (Notes 9, 10, 11 and 12)		
Net Assets		
Unrestricted	32,642,003	34,644,989
Temporarily restricted	13,328,463	12,831,240
Permanently restricted	9,427,613	9,336,054
Total net assets	55,398,079	56,812,283
Total liabilities and net assets	\$ 94,656,877	\$ 94,658,645

See Notes to Consolidated Financial Statements.

The Children's Home Society of Florida and Subsidiaries

Consolidated Statements of Activities

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
Total operating public support	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
Total operating public support and revenues	117,858,830	106,944	-	117,965,774
Net assets released from restrictions by satisfaction of program restrictions	586,575	(586,575)	-	-
Total operating public support, revenues and other support	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
Total supporting services	17,865,331	-	-	17,865,331
Total operating expenses	119,055,674	-	-	119,055,674
Decrease in net assets from operations	(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)
(Decrease) increase in other changes	(1,392,717)	976,854	91,559	(324,304)
(Decrease) increase in net assets	(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

(Continued)

The Children's Home Society of Florida and Subsidiaries

Consolidated Statements of Activities (Continued)

Year Ended June 30, 2014

	2014			Total
	Unrestricted	Temporarily Restricted	Permanently Restricted	
Operating Public Support, Revenues and Other Support:				
Operating public support:				
United Way	\$ 1,755,768	\$ -	\$ -	\$ 1,755,768
Bequests, contributions and special events	7,589,881	313,254	-	7,903,135
Total operating public support	9,345,649	313,254	-	9,658,903
Revenue from service contracts	100,849,370	-	-	100,849,370
Adoptive and other service fees	1,202,586	-	-	1,202,586
Investment income	311,529	-	-	311,529
Other revenue	1,762,973	-	-	1,762,973
Total operating public support and revenues	113,472,107	313,254	-	113,785,361
Net assets released from restrictions by satisfaction of program restrictions	2,272,700	(2,272,700)	-	-
Total operating public support, revenues and other support	115,744,807	(1,959,446)	-	113,785,361
Operating Expenses:				
Program services	97,977,715	-	-	97,977,715
Supporting services:				
Management and general	11,724,591	-	-	11,724,591
Fundraising	4,005,206	-	-	4,005,206
Total supporting services	15,729,797	-	-	15,729,797
Total operating expenses	113,707,512	-	-	113,707,512
Increase (decrease) in net assets from operations	2,037,295	(1,959,446)	-	77,849
Other Changes:				
Change in beneficial interests	-	3,159,308	1,643,237	4,802,545
Net realized and unrealized gains on investments	1,232,885	-	-	1,232,885
Loss on interest rate swap	(16,531)	-	-	(16,531)
Pension related changes other than net periodic benefit cost	791,826	-	-	791,826
Increase in other changes	2,008,180	3,159,308	1,643,237	6,810,725
Increase in net assets	4,045,475	1,199,862	1,643,237	6,888,574
Net Assets:				
Beginning	30,599,514	11,631,378	7,692,817	49,923,709
Ending	\$ 34,644,989	\$ 12,831,240	\$ 9,336,054	\$ 56,812,283

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
Total salaries and related expenses	913,063	2,034,137	926,701	3,429,994	62,398	5,113,421	1,059,924
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
Total before depreciation and amortization	244,092	610,203	601,256	829,527	12,845	1,681,850	293,938
Depreciation and Amortization	2,174	57,122	20,023	17,035	79	21,035	5,594
Total expenses	\$ 1,159,329	\$ 2,701,462	\$ 1,547,980	\$ 4,276,556	\$ 75,322	\$ 6,816,306	\$ 1,359,456

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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
Total salaries and related expenses	509,547	23,708,002	13,591,912	587,667	648,927	3,296,096	2,583,965
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
Total before depreciation and amortization	235,277	6,563,066	3,378,349	172,151	127,033	771,233	746,344
Depreciation and Amortization	4,576	47,172	77,556	3,849	2,097	15,839	37,782
Total expenses	\$ 749,400	\$ 30,318,240	\$ 17,047,817	\$ 763,667	\$ 778,057	\$ 4,083,168	\$ 3,368,091

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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
Total salaries and related expenses	7,642,152	708,353	5,512,519	3,483,528	75,812,306	7,789,754	2,645,478	10,435,232	86,247,538
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
Total before depreciation and amortization	4,776,681	103,372	2,484,223	1,038,521	24,669,961	3,502,093	1,979,867	5,481,960	30,151,921
Depreciation and Amortization	149,654	11,479	182,031	52,979	708,076	1,912,625	35,514	1,948,139	2,656,215
Total expenses	\$ 12,568,487	\$ 823,204	\$ 8,178,773	\$ 4,575,028	\$ 101,190,343	\$ 13,204,472	\$ 4,660,859	\$ 17,865,331	\$ 119,055,674

See Notes to Consolidated Financial Statements.

The Children's Home Society of Florida and Subsidiaries

Consolidated Statements of Functional Expenses

Year Ended June 30, 2014

	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	\$ 273,288	\$ 830,104	\$ 762,433	\$ 2,692,926	\$ 41,664	\$ 3,243,600	\$ 846,864
Employee Benefits	34,566	122,206	126,656	360,204	4,755	504,749	116,339
Payroll Taxes and Other	22,890	77,487	68,490	249,230	3,756	299,110	80,269
Total salaries and related expenses	330,744	1,029,797	957,579	3,302,360	50,175	4,047,459	1,043,472
Professional Fees	47,143	7,764	124,223	55,849	105	41,134	28,731
Supplies	3,758	6,487	9,047	18,239	222	60,961	7,097
Telephone	7,882	26,588	25,031	54,942	1,170	66,203	27,101
Postage and Shipping	36	5,017	1,416	6,948	113	15,829	5,388
Occupancy	24,839	109,062	93,844	230,920	8,468	296,161	149,886
Rental and Maintenance of Equipment	9,011	13,600	20,362	23,437	169	75,277	15,665
Printing and Publications	100,484	1,453	2,264	12,462	-	13,596	555
Travel	5,127	49,537	41,786	155,418	1,232	274,363	38,688
Conferences, Conventions and Meetings	7,082	2,316	12,707	6,233	24	8,607	1,994
Specific Assistance to Individuals	153	32,607	36,188	74,296	2	75,400	10,463
Membership Dues	651	1,235	1,131	5,618	78	10,915	1,100
Interest	-	-	-	-	-	-	-
Insurance	619	11,234	9,329	47,211	446	41,841	11,167
Provision for Bad Debt	-	82	1,065	338	-	65	(56)
Contributed Goods	-	17,175	57,861	140,637	7,300	547,274	912
Other	1,571	7,821	109,676	28,776	98	17,397	5,928
Total before depreciation and amortization	208,356	291,978	545,930	861,324	19,427	1,545,023	304,619
Depreciation and Amortization	2,583	57,127	20,856	17,806	78	22,071	4,921
Total expenses	\$ 541,683	\$ 1,378,902	\$ 1,524,365	\$ 4,181,490	\$ 69,680	\$ 5,614,553	\$ 1,353,012

(Continued)

The Children's Home Society of Florida and Subsidiaries

Consolidated Statements of Functional Expenses (Continued)

Year Ended June 30, 2014

	Program Services						
	Daycare	Case Management/ Development Services	Case Management/ Mental Health	Home-Based Family Centered Casework	Homemaker	Intensive Family Preservation	Emergency Shelter/ Runaway
Salaries	\$ 745,523	\$ 19,710,190	\$ 10,539,049	\$ 456,752	\$ 476,157	\$ 3,319,666	\$ 1,950,521
Employee Benefits	19,500	2,788,836	1,498,105	99,107	75,115	464,777	210,234
Payroll Taxes and Other	85,711	1,829,643	972,353	40,422	44,103	308,004	182,143
Total salaries and related expenses	850,734	24,328,669	13,009,507	596,281	595,375	4,092,447	2,342,898
Professional Fees	6,223	594,214	153,219	2,217	1,522	26,621	17,348
Supplies	5,009	130,882	85,880	4,718	4,413	18,385	26,700
Telephone	15,529	341,730	266,962	6,728	10,797	84,016	44,674
Postage and Shipping	585	36,901	15,437	473	805	3,290	2,167
Occupancy	157,041	873,779	1,113,412	36,635	63,734	376,989	205,282
Rental and Maintenance of Equipment	6,739	62,646	66,078	4,024	8,541	49,905	24,930
Printing and Publications	1,986	7,847	11,845	1,705	37	1,891	4,038
Travel	15,226	1,879,875	670,473	21,846	35,975	249,931	109,023
Conferences, Conventions and Meetings	389	28,912	14,421	636	513	4,116	2,451
Specific Assistance to Individuals	136,601	1,559,042	497,296	17,964	1,512	71,608	207,292
Membership Dues	1,269	34,019	38,954	4,540	535	3,310	21,842
Interest	-	-	-	-	-	-	-
Insurance	13,211	382,396	191,871	6,091	5,758	43,670	37,241
Provision for Bad Debt	-	4,325	35,866	-	-	7,111	98
Contributed Goods	1,596	185,597	109,944	11,458	2,407	155,388	25,604
Other	12,645	185,796	57,086	3,746	1,972	25,549	17,660
Total before depreciation and amortization	374,049	6,307,961	3,328,744	122,781	138,521	1,121,780	746,350
Depreciation and Amortization	15,638	55,171	62,845	2,474	2,393	18,692	36,072
Total expenses	\$ 1,240,421	\$ 30,691,801	\$ 16,401,096	\$ 721,536	\$ 736,289	\$ 5,232,919	\$ 3,125,320

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The Children's Home Society of Florida and Subsidiaries

Consolidated Statements of Functional Expenses (Continued)

Year Ended June 30, 2014

	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	\$ 6,449,792	\$ 520,871	\$ 4,519,198	\$ 2,028,177	\$ 59,406,775	\$ 6,043,885	\$ 1,904,183	\$ 7,948,068	\$ 67,354,843
Employee Benefits	850,958	85,668	547,707	279,221	8,188,703	776,307	235,271	1,011,578	9,200,281
Payroll Taxes and Other	591,716	47,480	420,289	170,716	5,493,812	466,913	152,622	619,535	6,113,347
Total salaries and related expenses	7,892,466	654,019	5,487,194	2,478,114	73,089,290	7,287,105	2,292,076	9,579,181	82,668,471
Professional Fees	167,277	6,662	45,973	16,420	1,342,645	569,089	155,254	724,343	2,066,988
Supplies	56,558	4,715	29,370	27,483	499,924	45,384	49,318	94,702	594,626
Telephone	109,047	17,794	130,015	58,486	1,294,695	485,015	77,516	562,531	1,857,226
Postage and Shipping	11,333	630	3,149	5,720	115,237	29,635	19,150	48,785	164,022
Occupancy	567,767	97,295	756,767	190,333	5,352,214	368,607	113,557	482,164	5,834,378
Rental and Maintenance of Equipment	64,047	9,809	66,717	41,626	562,583	58,332	44,256	102,588	665,171
Printing and Publications	20,918	70	2,747	77,075	260,973	36,647	109,856	146,503	407,476
Travel	447,416	23,969	422,484	113,816	4,556,185	300,792	119,940	420,732	4,976,917
Conferences, Conventions and Meetings	24,395	188	5,970	19,659	140,613	67,212	15,866	83,078	223,691
Specific Assistance to Individuals	3,015,234	1,418	908,630	4,029	6,649,735	9,846	156,208	166,054	6,815,789
Membership Dues	8,785	688	5,740	5,492	145,902	75,921	11,513	87,434	233,336
Interest	-	-	-	-	-	575,771	-	575,771	575,771
Insurance	122,956	7,638	76,164	19,568	1,028,411	40,595	13,059	53,654	1,082,065
Provision for Bad Debt	37,420	-	2,343	-	88,657	4,634	-	4,634	93,291
Contributed Goods	36,958	14,056	73,823	18,954	1,406,944	13,391	204,321	217,712	1,624,656
Other	108,820	8,077	45,748	59,317	697,683	351,417	597,014	948,431	1,646,114
Total before depreciation and amortization	4,798,931	193,009	2,575,640	657,978	24,142,401	3,032,288	1,686,828	4,719,116	28,861,517
Depreciation and Amortization	159,696	11,395	205,096	51,110	746,024	1,405,198	26,302	1,431,500	2,177,524
Total expenses	\$ 12,851,093	\$ 858,423	\$ 8,267,930	\$ 3,187,202	\$ 97,977,715	\$ 11,724,591	\$ 4,005,206	\$ 15,729,797	\$ 113,707,512

See Notes to Consolidated Financial Statements.

The Children's Home Society of Florida and Subsidiaries

Consolidated Statements of Cash Flows
Years Ended June 30, 2015 and 2014

	2015	2014
Cash Flows From Operating Activities		
(Decrease) increase in net assets	\$ (1,414,204)	\$ 6,888,574
Adjustments to reconcile (decrease) increase in net assets to net cash (used in) provided by operating activities:		
Depreciation and amortization	2,656,215	2,177,524
Net realized and unrealized losses (gains) on investments	78,363	(1,232,885)
Loss on interest rate swap	237,027	16,531
Change in beneficial interests	(588,782)	(3,430,867)
Pension related changes other than net periodic benefit cost	1,077,327	(791,826)
Contribution of property and equipment	(1,576,307)	(11,450)
(Gain) loss on sale/disposal of property and equipment	(219,755)	12,058
Provision for doubtful accounts	426,085	93,291
Changes in operating assets and liabilities:		
Receivables	(3,422,713)	498,548
Prepaid expenses and other assets	(185,629)	33,810
Accounts payable	(33,654)	(79,608)
Accrued expense	1,079,946	163,287
Deferred revenue and other liabilities	(22,405)	(218,310)
Pension liability	(573,219)	(693,899)
Net cash (used in) provided by operating activities	(2,481,705)	3,424,778
Cash Flows From Investing Activities		
Purchases of property and equipment	(1,967,595)	(1,754,297)
Proceeds from sale of property and equipment	599,881	66,492
Proceeds from sale of investments	1,206,114	2,637,476
Purchases of investments	(1,544,881)	(3,142,245)
Net cash used in investing activities	(1,706,481)	(2,192,574)
Cash Flows From Financing Activities		
Principal payments on debt	(335,000)	(315,000)
Net cash used in financing activities	(335,000)	(315,000)
Net (decrease) increase in cash and cash equivalents	(4,523,186)	917,204
Cash and Cash Equivalents		
Beginning	8,744,028	7,826,824
Ending	\$ 4,220,842	\$ 8,744,028
Supplemental Disclosures of Cash Flow Information		
Cash paid during the year for interest	\$ 561,346	\$ 577,107

See Notes to Consolidated Financial Statements.

The Children's Home Society of Florida and Subsidiaries

Notes to Consolidated Financial Statements

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 not-for-profit 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 gains (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. 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 \$786,082 and \$350,383 at June 30, 2015 and 2014, respectively, reflects management's best estimate of uncollectible accounts.

The Children's Home Society of Florida and Subsidiaries

Notes to Consolidated Financial Statements

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, 2015 and 2014.

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: In accordance with guidance related to accounting for contributions held by an organization for the benefit of another organization which states that organizations that transfer assets to other not-for-profit agencies who specify themselves or their affiliates as the beneficiaries, and has not granted variance power, are not considered expenses and are recorded as a beneficial interest in the consolidated statements of financial position at fair value. Change in residual value of temporarily or permanently restricted net assets of the beneficial interest in assets held by others are 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

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. 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 \$122,800 and \$62,300 for the years ended June 30, 2015 and 2014, 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 \$1,624,000 and \$1,625,000 for the years ended June 30, 2015 and 2014, 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, 2015 and 2014. 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.

The Children's Home Society of Florida and Subsidiaries

Notes to Consolidated Financial Statements

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

Use of estimates: The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America 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.

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, 2012.

Fair value of financial instruments: At June 30, 2015 and 2014, CHS' financial instruments consist of cash and cash equivalents, accounts receivable, investments, accounts payable, interest rate swaps, bonds payable, and other borrowings. The fair values of CHS' financial instruments excluding interest rate swaps, bonds payable, other borrowings and investments approximate their fair values because of the short-term nature of these instruments. Investments are stated at fair value based on quoted market prices. 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 swaps are recorded at fair value and therefore, carrying values equal fair value in the accompanying consolidated financial statements. Borrowings at variable interest rates are estimated by management to be at fair value due to the floating interest rate based on market factors. Notes payable at fixed rates are not materially different from fair value based upon maturities and similar credit risk comparisons available to CHS at June 30, 2015 and 2014.

Recent accounting pronouncements: In May 2014, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) 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. Early adoption is not permitted. The updated standard will become effective for annual reporting periods beginning after December 15, 2018. CHS has not yet selected a transition method and has not yet evaluated the impact the updated standard will have on the consolidated financial statements.

The FASB has issued certain new or modifications to, or interpretations of, existing accounting guidance in addition to the ASU 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 29, 2015, 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

Note 2. Temporarily and Permanently Restricted Net Assets

Temporarily restricted net assets consisted of the following at June 30, 2015 and 2014:

	2015	2014
Beneficial interest in the net assets of The Children's Home Society of Florida Foundation, Inc.	\$ 13,296,883	\$ 12,596,237
Beneficial interest in assets held by others – Community Foundation of Tampa Bay, Inc.	31,580	235,003
	<u>\$ 13,328,463</u>	<u>\$ 12,831,240</u>

As of June 30, 2015 and 2014, net assets of \$586,575 and \$2,272,700, respectively, were released from donor restrictions by incurring expenses satisfying the restricted purposes or by occurrence of other events specified by donors.

Permanently restricted net assets consisted of the following at June 30, 2015 and 2014:

	2015	2014
Beneficial interest in the net assets of The Children's Home Society of Florida Foundation, Inc.	\$ 8,467,041	\$ 8,375,482
Beneficial interest in assets held by others – Community Foundation of Tampa Bay, Inc.	960,572	960,572
	<u>\$ 9,427,613</u>	<u>\$ 9,336,054</u>

Note 3. Receivables

Receivables consisted of the following at June 30, 2015 and 2014:

	2015	2014
Community based care contracts	\$ 8,783,325	\$ 7,842,502
Other contracts	2,679,401	2,401,172
Medicaid	2,349,648	886,317
Government contracts	2,317,678	2,003,391
Pledges	1,425,711	984,959
	<u>17,555,763</u>	<u>14,118,341</u>
Less allowance for doubtful accounts	(786,082)	(350,383)
Less discount for time-value of money	(75,358)	(70,263)
	<u>\$ 16,694,323</u>	<u>\$ 13,697,695</u>

Medicaid accounted for 11.3% of net receivables at June 30, 2015.

The Children's Home Society of Florida and Subsidiaries

Notes to Consolidated Financial Statements

Note 3. Receivables (Continued)

Pledges that are included above are unconditional promises to give at June 30, 2015 and 2014, and are summarized as follows:

	2015	2014
Amounts due:		
Within one year	\$ 206,327	\$ 268,355
One to five years	715,868	316,088
More than five years	503,516	400,516
	<u>1,425,711</u>	<u>984,959</u>
Less allowance for doubtful accounts	(91,608)	(32,519)
Less discount for time-value of money	(75,358)	(70,263)
	<u>\$ 1,258,745</u>	<u>\$ 882,177</u>

Note 4. Investments

The fair value of investments at June 30, 2015 and 2014, consists of the following:

	2015	2014
Mutual funds:		
Large Blend fund	\$ 4,898,137	\$ 4,809,880
Intermediate-Term Bond fund	2,599,407	2,574,758
Foreign Large Blend fund	1,701,410	1,731,333
Mid-Cap Growth fund	1,001,802	881,422
Target Date fund	598,954	659,175
Moderated Allocation fund	544,390	392,242
Multi-Sector Bond fund	475,538	478,507
Retirement Income fund	45,124	87,355
Large Growth fund	39,818	36,485
Mid-Cap Blend fund	26,410	24,300
Small Blend fund	13,610	12,841
Short Government fund	6,496	2,302
Inflation Protected Bond fund	-	92
	<u>\$ 11,951,096</u>	<u>\$ 11,690,692</u>

The Children's Home Society of Florida and Subsidiaries

Notes to Consolidated Financial Statements

Note 5. Property and Equipment

Property and equipment consisted of the following at June 30, 2015 and 2014:

	<u>2015</u>	<u>2014</u>
Land	\$ 4,827,402	\$ 4,851,402
Buildings and improvements	40,669,652	40,225,592
Furniture and equipment	24,019,345	21,705,848
Leasehold improvements	1,314,788	1,273,348
	<u>70,831,187</u>	<u>68,056,190</u>
Less accumulated depreciation	(34,350,461)	(32,065,439)
	<u>\$ 36,480,726</u>	<u>\$ 35,990,751</u>

Depreciation and amortization expense of property and equipment for the years ended June 30, 2015 and 2014, was approximately \$2,656,000 and \$2,178,000, 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 Children's Home Society of Florida and Subsidiaries

Notes to Consolidated Financial Statements

Note 6. Fair Value Measurements (Continued)

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, 2015 and 2014:

	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 Children's Home Society of Florida and Subsidiaries

Notes to Consolidated Financial Statements

Note 6. Fair Value Measurements (Continued)

	2014			
	Fair Value Measurements Using			
	Level 1	Level 2	Level 3	Total
Investments in securities:				
Mutual funds:				
Large Blend fund	\$ 4,809,880	\$ -	\$ -	\$ 4,809,880
Intermediate-Term Bond fund	2,574,758	-	-	2,574,758
Foreign Large Blend fund	1,731,333	-	-	1,731,333
Mid-Cap Growth fund	881,422	-	-	881,422
Target Date fund	659,175	-	-	659,175
Multi-Sector Bond fund	478,507	-	-	478,507
Moderate Allocation fund	392,242	-	-	392,242
Retirement Income fund	87,355	-	-	87,355
Large Growth fund	36,485	-	-	36,485
Mid-Cap Blend fund	24,300	-	-	24,300
Small Blend fund	12,841	-	-	12,841
Short Government fund	2,302	-	-	2,302
Inflation Protected Bond fund	92	-	-	92
Total	11,690,692	-	-	11,690,692
Beneficial interest in assets held by others – Community Foundation of Tampa Bay, Inc.	-	-	1,195,575	1,195,575
Total	\$ 11,690,692	\$ -	\$ 1,195,575	\$ 12,886,267
Liabilities:				
Interest rate swap obligation	\$ -	\$ 3,070,624	\$ -	\$ 3,070,624

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

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

The Children's Home Society of Florida and Subsidiaries

Notes to Consolidated Financial Statements

Note 6. Fair Value Measurements (Continued)

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

The 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, 2015 and 2014:

	2015	2014
Balance, beginning of year	\$ 1,195,575	\$ -
Additions	-	1,028,183
Net realized and unrealized (losses) gains	(67,440)	140,460
Interest and dividend income	47,874	35,075
Distributions to CHS	(175,746)	-
Investment manager and administrative fees	(8,111)	(8,143)
Balance, end of year	<u>\$ 992,152</u>	<u>\$ 1,195,575</u>

Note 7. Accrued Expenses

Accrued expenses consisted of the following at June 30, 2015 and 2014:

	2015	2014
Accrued salaries and benefits	\$ 4,295,763	\$ 3,749,388
Accrued vacation	2,123,244	1,663,263
Other	147,788	74,198
	<u>\$ 6,566,795</u>	<u>\$ 5,486,849</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 30th 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 \$463,728 and \$338,489 at June 30, 2015 and 2014, respectively.

The Children's Home Society of Florida and Subsidiaries

Notes to Consolidated Financial Statements

Note 8. Debt and Lines of Credit

Debt consisted of the following at June 30, 2015 and 2014:

	2015	2014
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 (.19% at June 30, 2015). 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).	\$ 14,560,000	\$ 14,895,000
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>\$ 16,419,610</u>	<u>\$ 16,754,610</u>

The Children's Home Society of Florida and Subsidiaries

Notes to Consolidated Financial Statements

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, 2015, are as follows:

Year Ending June 30,	Amount
2016	\$ 350,000
2017	370,000
2018	385,000
2019	405,000
2020	425,000
Thereafter	14,484,610
	<u>\$ 16,419,610</u>

If the letter of credit is not renewed on March 31, 2016, the entire amount of the bonds payable (\$14,210,000) 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 (\$7,365,000 and \$7,195,000, respectively, at June 30, 2015). 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 (.19% at June 30, 2015). The swap agreements terminate in May 2032 and May 2038, respectively. For the years ended June 30, 2015 and 2014, the interest rate swaps had a total negative fair value of \$3,307,651 and \$3,070,624, respectively, resulting in a loss of \$237,027 and \$16,531, respectively, which is reflected in the accompanying consolidated statements of activities.

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% (1.79% at June 30, 2015). 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, 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% (3.19% at June 30, 2015). 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, 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, 2015 and 2014, no amount has been drawn on the letter of credit. The letter of credit expires on March 31, 2016 (see Note 8).

The Children's Home Society of Florida and Subsidiaries

Notes to Consolidated Financial Statements

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 \$2,943,000 and \$2,957,000 for the years ended June 30, 2015 and 2014, respectively.

Future minimum lease payments under these operating leases as of June 30, 2015, are as follows:

Year Ending June 30,	Amount
2016	\$ 3,138,573
2017	2,841,527
2018	1,927,975
2019	1,493,192
2020	790,836
Thereafter	552,040
	\$ 10,744,143

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, 2015 and 2014, lump sum settlement payments were \$2,864,992 and \$1,602,984 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 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, 2015, and a statement of the funded status as of June 30, 2015 and 2014:

	2015	2014
Accumulated benefit obligation at end of year	\$ 41,619,153	\$ 41,820,716
Change in projected benefit obligation:		
Projected benefit obligation at beginning of year	\$ 41,820,716	\$ 38,659,413
Interest cost	1,531,902	1,596,063
Actuarial loss	1,477,278	3,481,173
Benefit payments	(345,751)	(312,949)
Lump sum settlement benefit payments	(2,864,992)	(1,602,984)
Projected benefit obligation at end of year	\$ 41,619,153	\$ 41,820,716

The Children's Home Society of Florida and Subsidiaries

Notes to Consolidated Financial Statements

Note 11. Retirement Plans (Continued)

	<u>2015</u>	<u>2014</u>
Change in fair value of plan assets:		
Fair value of plan assets at beginning of year	\$ 32,890,089	\$ 28,243,061
Actual return on plan assets	405,072	4,462,961
Employer contributions	2,100,000	2,100,000
Benefit payments	(345,751)	(312,949)
Lump sum settlement benefit payments	(2,864,992)	(1,602,984)
Fair value of plan assets at end of year	<u><u>\$ 32,184,418</u></u>	<u><u>\$ 32,890,089</u></u>
Unfunded status at end of year	<u><u>\$ (9,434,735)</u></u>	<u><u>\$ (8,930,627)</u></u>

The unfunded status as of June 30, 2015 and 2014 of \$9,434,735 and \$8,930,627, 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, 2015 and 2014, are as follows:

	<u>2015</u>	<u>2014</u>
Net actuarial loss	\$ 3,132,749	\$ 971,999
Amortization of actuarial loss	(1,099,371)	(1,272,944)
Amount recognized due to settlement	(956,051)	(490,881)
Pension related changes other than net periodic benefit cost (gain)	<u><u>\$ 1,077,327</u></u>	<u><u>\$ (791,826)</u></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, 2015 and 2014:

	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>
	2014			
	Fair Value Measurements Using			
	Level 1	Level 2	Level 3	Total
Equity securities:				
Mutual funds:				
Domestic equities	\$ 12,414,295	\$ -	\$ -	\$ 12,414,295
International equities	2,633,183	-	-	2,633,183
Debt securities:				
Government bond fund – pooled separate accounts	-	949,432	-	949,432
Bond fund – pooled separate accounts	-	16,893,179	-	16,893,179
	<u>\$ 15,047,478</u>	<u>\$ 17,842,611</u>	<u>\$ -</u>	<u>\$ 32,890,089</u>

CHS' pension plan weighted-average asset allocations at June 30, 2015 and 2014, by asset category are as follows:

	Target	Percentage of Plan	
	Allocation	Assets at June 30,	
	2016	2015	2014
Equity securities	55%	43%	46%
Debt securities	45%	57%	54%
	<u>100%</u>	<u>100%</u>	<u>100%</u>

The Children's Home Society of Florida and Subsidiaries

Notes to Consolidated Financial Statements

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 2015 and 2014, are as follows:

	2015	2014
Interest cost	\$ 1,531,902	\$ 1,596,063
Expected return on plan assets	(2,060,543)	(1,953,787)
Amortization of actuarial loss	1,099,371	1,272,944
Effect of settlement	956,051	490,881
Net periodic benefit cost	\$ 1,526,781	\$ 1,406,101

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, 2016 are \$2,100,000.

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

Year Ending June 30,	Amount
2016	\$ 1,780,000
2017	2,110,000
2018	2,010,000
2019	2,640,000
2020	2,090,000
2021 – 2025	13,440,000

The Children's Home Society of Florida and Subsidiaries

Notes to Consolidated Financial Statements

Note 11. Retirement Plans (Continued)

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

	2015	2014
Weighted-average assumptions as of June 30:		
Discount rate	3.90%	3.75%
Expected return on plan assets	7.00%	8.00%
Rate of compensation increase	N/A	N/A
	2015	2014
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, 2015	June 30, 2014

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 \$1,186,000 and \$1,105,000, respectively, for the years ended June 30, 2015 and 2014.

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 \$18,500 and \$44,500, respectively, for the years ended June 30, 2015 and 2014.

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, 2015 and 2014.

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 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

Note 13. Beneficial Interests

Beneficial interests consisted of the following at June 30, 2015 and 2014:

	<u>2015</u>	<u>2014</u>
Beneficial interest in the net assets of The Children's Home Society of Florida Foundation, Inc.	\$ 21,763,924	\$ 20,971,719
Beneficial interest in assets held by others – Community Foundation of Tampa Bay, Inc.	992,152	1,195,575
	<u>\$ 22,756,076</u>	<u>\$ 22,167,294</u>

At June 30, 2015 and 2014, CHS's beneficial interest in the net assets of The Children's Home Society of Florida Foundation, Inc. (Foundation) was \$21,763,924 and \$20,971,719, 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 \$1,180,264 and \$2,924,305, net of distributions to CHS (contributions to the Foundation) of \$479,618 and \$1,371,678, for the years ended June 30, 2015 and 2014, 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 \$91,559 and \$682,665 for the years ended June 30, 2015 and 2014, respectively, which is included in the accompanying consolidated statements of activities.

At June 30, 2015 and 2014, 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, 2015 and 2014, the endowment fund has a fair value of \$992,152 and \$1,195,575, 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 (\$203,423) and \$235,003 for the years ended June 30, 2015 and 2014, respectively, which is included in the accompanying consolidated statements of activities. The permanently restricted net assets change in beneficial interest in assets held by others was \$960,572 for the year ended June 30, 2014, which is included in the accompanying consolidated statements of activities.

**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
Winter Park, Florida

We have audited, 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, 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, 2015, 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 29, 2015.

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

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

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

Purpose of This Report

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

RSM US LLP

Orlando, Florida
October 29, 2015