

The Children's Home Society of Florida and Subsidiaries

Consolidated Financial Report
June 30, 2019

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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, 2019 and 2018, 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, 2019 and 2018, 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.

Emphasis of Matter – Change in Accounting

As discussed in Note 1 to the accompanying consolidated financial statements, The Children’s Home Society of Florida and its subsidiaries, adopted Accounting Standards Update (ASU) No. 2016-14, *Not-for-Profit Entities (Topic 958): Presentation of Financial Statements of Not-for-Profit Entities*. Our opinion is not modified with respect to this matter.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated October 31, 2019 on our consideration of The Children’s Home Society of Florida and its subsidiaries’ internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of The Children’s Home Society of Florida and its subsidiaries’ internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering The Children’s Home Society of Florida and its subsidiaries’ internal control over financial reporting and compliance.

RSM US LLP

Orlando, Florida
October 31, 2019

The Children's Home Society of Florida and Subsidiaries

Consolidated Statements of Financial Position
June 30, 2019 and 2018

	2019	2018
Assets		
Cash and cash equivalents	\$ 5,398,030	\$ 5,224,697
Receivables, net	12,535,861	12,554,788
Prepaid expenses and other assets	2,222,374	1,875,165
Investments	14,875,440	14,082,639
Beneficial interests	25,303,600	24,721,982
Property and equipment, net	27,279,242	31,281,382
	<u>27,279,242</u>	<u>31,281,382</u>
Total assets	\$ 87,614,547	\$ 89,740,653
Liabilities and Net Assets		
Liabilities:		
Accounts payable	\$ 1,665,778	\$ 2,516,219
Accrued expenses	8,876,663	6,683,357
Deferred revenue and other liabilities	783,842	717,991
Pension liability	8,202,549	6,430,811
Held in custody for account of others	889,677	937,978
Debt and lines of credit	13,063,637	18,565,673
	<u>13,063,637</u>	<u>18,565,673</u>
Total liabilities	33,482,146	35,852,029
Commitments and contingencies (Notes 9, 11 and 12)		
Net assets:		
Without donor restrictions	28,749,241	29,166,642
With donor restrictions	25,383,160	24,721,982
	<u>25,383,160</u>	<u>24,721,982</u>
Total net assets	54,132,401	53,888,624
	<u>54,132,401</u>	<u>53,888,624</u>
Total liabilities and net assets	\$ 87,614,547	\$ 89,740,653
	<u>\$ 87,614,547</u>	<u>\$ 89,740,653</u>

See notes to consolidated financial statements.

The Children's Home Society of Florida and Subsidiaries

Consolidated Statements of Activities
Year Ended June 30, 2019

	2019		Total
	Without Donor Restrictions	With Donor Restrictions	
Operating public support and revenues:			
Operating public support:			
United Way	\$ 1,215,651	\$ -	\$ 1,215,651
Bequests, contributions and special events	7,289,641	206,797	7,496,438
Total operating public support	8,505,292	206,797	8,712,089
Revenue from service contracts	95,228,576	-	95,228,576
Adoptive and other service fees	384,174	-	384,174
Investment income, net	506,865	-	506,865
Gain on sale of property and equipment	2,530,532	-	2,530,532
Other revenues	1,234,518	-	1,234,518
Net assets released from restrictions	993,601	(993,601)	-
Total operating public support and revenues	109,383,558	(786,804)	108,596,754
Operating expenses:			
Program services	93,277,572	-	93,277,572
Supporting services:			
Management and general	12,662,792	-	12,662,792
Fundraising	3,774,268	-	3,774,268
Total supporting services	16,437,060	-	16,437,060
Total operating expenses	109,714,632	-	109,714,632
Change in net assets from operations	(331,074)	(786,804)	(1,117,878)
Other changes:			
Change in beneficial interests	-	1,447,982	1,447,982
Net realized and unrealized gains on investments	414,739	-	414,739
Pension related changes other than net periodic benefit cost	(501,066)	-	(501,066)
Change in other changes	(86,327)	1,447,982	1,361,655
Change in net assets	(417,401)	661,178	243,777
Net assets:			
Beginning	29,166,642	24,721,982	53,888,624
Ending	\$ 28,749,241	\$ 25,383,160	\$ 54,132,401

(Continued)

The Children's Home Society of Florida and Subsidiaries

Consolidated Statements of Activities (Continued)
Year Ended June 30, 2018

	2018		
	Without Donor Restrictions	With Donor Restrictions	Total
Operating public support and revenues:			
Operating public support:			
United Way	\$ 1,523,374	\$ -	\$ 1,523,374
Bequests, contributions and special events	7,959,270	30,402	7,989,672
Total operating public support	9,482,644	30,402	9,513,046
Revenue from service contracts	100,425,569	-	100,425,569
Adoptive and other service fees	496,573	-	496,573
Investment income, net	565,376	-	565,376
Gain on sale of property and equipment	107,238	-	107,238
Other revenues	1,131,861	-	1,131,861
Net assets released from restrictions	1,018,754	(1,018,754)	-
Total operating public support and revenues	113,228,015	(988,352)	112,239,663
Operating expenses:			
Program services	98,354,538	-	98,354,538
Supporting services:			
Management and general	14,459,473	-	14,459,473
Fundraising	3,624,676	-	3,624,676
Total supporting services	18,084,149	-	18,084,149
Total operating expenses	116,438,687	-	116,438,687
Change in net assets from operations	(3,210,672)	(988,352)	(4,199,024)
Other changes:			
Change in beneficial interests	-	2,115,815	2,115,815
Net realized and unrealized gains on investments	322,465	-	322,465
Pension related changes other than net periodic benefit cost	3,435,271	-	3,435,271
Change in other changes	3,757,736	2,115,815	5,873,551
Change in net assets	547,064	1,127,463	1,674,527
Net assets:			
Beginning	28,619,578	23,594,519	52,214,097
Ending	\$ 29,166,642	\$ 24,721,982	\$ 53,888,624

See notes to consolidated financial statements.

The Children's Home Society of Florida and Subsidiaries

Consolidated Statements of Functional Expenses
Year Ended June 30, 2019

	Program Services					Supporting Services				
	Child	Behavioral	Early	Total		Management	Fund	Total	Total	
	Welfare	Health	Childhood	Community	Community					Program
Solutions	Solutions	Solutions	Solutions	Education	Services	and General	Raising	Services	Expenses	
Salaries	\$ 34,996,109	\$ 9,846,578	\$ 7,628,193	\$ 2,789,695	\$ 92,656	\$ 55,353,231	\$ 6,238,001	\$ 1,941,871	\$ 8,179,872	\$ 63,533,103
Employee benefits	6,439,224	1,824,322	1,420,936	529,469	20,793	10,234,744	342,763	359,173	701,936	10,936,680
Payroll taxes and other	3,180,694	914,183	707,420	248,006	7,493	5,057,796	459,618	154,197	613,815	5,671,611
Total salaries and related expenses	44,616,027	12,585,083	9,756,549	3,567,170	120,942	70,645,771	7,040,382	2,455,241	9,495,623	80,141,394
Professional fees	547,240	1,045,448	187,064	307,322	5,003	2,092,077	1,123,669	153,592	1,277,261	3,369,338
Supplies	191,080	52,503	93,201	19,821	5,485	362,090	60,554	19,576	80,130	442,220
Telephone	754,847	240,756	235,191	78,740	12,630	1,322,164	496,372	139,540	635,912	1,958,076
Postage and shipping	44,644	7,024	6,028	939	1,428	60,063	25,120	20,133	45,253	105,316
Occupancy	2,222,655	699,727	849,908	554,601	37,859	4,364,750	722,108	115,853	837,961	5,202,711
Rental and maintenance of equipment	295,664	162,282	127,090	40,158	3,852	629,046	150,304	17,415	167,719	796,765
Printing and publications	13,391	6,679	5,958	14,199	3,524	43,751	87,916	42,859	130,775	174,526
Travel	3,029,407	475,130	603,225	172,797	265,533	4,546,092	331,852	85,895	417,747	4,963,839
Conferences, conventions and meetings	79,481	39,519	63,515	23,766	1,103	207,384	48,542	21,015	69,557	276,941
Specific assistance to individuals	2,767,678	705,886	1,468,948	133,064	6,425	5,082,001	25,281	45,202	70,483	5,152,484
Membership dues	99,597	24,148	38,245	33,867	661	196,518	107,624	5,907	113,531	310,049
Interest	930	68	-	72	-	1,070	689,271	-	689,271	690,341
Insurance	1,057,319	178,297	164,160	43,001	736	1,443,513	80,363	16,876	97,239	1,540,752
Provision for bad debt	62,257	395,704	-	30	-	457,991	108	-	108	458,099
Contributed goods	270,349	13,652	357,012	50,984	258	692,255	410	285,209	285,619	977,874
Other	408,633	27,148	33,593	16,940	2,312	488,626	238,934	346,765	585,699	1,074,325
Total before depreciation and amortization	56,461,199	16,659,054	13,989,687	5,057,471	467,751	92,635,162	11,228,810	3,771,078	14,999,888	107,635,050
Depreciation and amortization	425,422	56,305	76,702	75,663	8,318	642,410	1,433,982	3,190	1,437,172	2,079,582
Total expenses	\$ 56,886,621	\$ 16,715,359	\$ 14,066,389	\$ 5,133,134	\$ 476,069	\$ 93,277,572	\$ 12,662,792	\$ 3,774,268	\$ 16,437,060	\$ 109,714,632

(Continued)

The Children's Home Society of Florida and Subsidiaries

Consolidated Statements of Functional Expenses (Continued)

Year Ended June 30, 2018

	Program Services					Total Program Services	Supporting Services		Total Supporting Services	Total Functional Expenses
	Child Welfare Solutions	Behavioral Health Solutions	Early Childhood Solutions	Community Solutions	Community Education		Management and General	Fund Raising		
Salaries	\$ 37,575,812	\$ 10,693,388	\$ 8,118,113	\$ 2,453,768	\$ 921,276	\$ 59,762,357	\$ 7,054,542	\$ 1,586,669	\$ 8,641,211	\$ 68,403,568
Employee benefits	6,018,435	1,717,735	1,298,212	407,818	147,544	9,589,744	1,207,057	248,547	1,455,604	11,045,348
Payroll taxes and other	3,480,049	1,000,462	748,191	226,257	71,791	5,526,750	498,651	125,297	623,948	6,150,698
Total salaries and related expenses	47,074,296	13,411,585	10,164,516	3,087,843	1,140,611	74,878,851	8,760,250	1,960,513	10,720,763	85,599,614
Professional fees	655,198	909,660	93,746	258,476	37,233	1,954,313	1,255,643	307,819	1,563,462	3,517,775
Supplies	228,063	76,756	95,396	19,813	8,857	428,885	52,033	22,473	74,506	503,391
Telephone	689,810	266,796	226,363	72,570	22,184	1,277,723	522,038	155,962	678,000	1,955,723
Postage and shipping	49,970	6,412	14,909	2,358	2,657	76,306	23,653	31,004	54,657	130,963
Occupancy	2,299,053	915,407	859,964	128,096	68,910	4,271,430	654,572	167,357	821,929	5,093,359
Rental and maintenance of equipment	324,024	118,594	153,216	22,526	16,712	635,072	123,543	21,386	144,929	780,001
Printing and publications	27,108	28,577	45,377	16,219	43,992	161,273	85,810	47,985	133,795	295,068
Travel	3,193,845	472,795	627,772	105,644	37,396	4,437,452	307,751	80,425	388,176	4,825,628
Conferences, conventions and meetings	106,220	56,385	53,718	20,965	7,434	244,722	42,474	7,543	50,017	294,739
Specific assistance to individuals	3,284,577	987,532	1,703,477	112,308	3,715	6,091,609	17,838	-	17,838	6,109,447
Membership dues	98,415	25,806	46,434	40,980	2,584	214,219	64,174	7,236	71,410	285,629
Interest	257	-	-	-	-	257	566,627	790	567,417	567,674
Insurance	857,834	147,747	118,942	26,931	6,410	1,157,864	49,305	15,680	64,985	1,222,849
Provision for bad debt	6,831	32,144	48,368	23,530	-	110,873	269,435	-	269,435	380,308
Contributed goods	343,810	47,226	517,711	129,663	1,921	1,040,331	23,725	382,693	406,418	1,446,749
Other	479,328	40,382	57,171	14,811	116,330	708,022	204,525	408,329	612,854	1,320,876
Total before depreciation and amortization	59,718,639	17,543,804	14,827,080	4,082,733	1,516,946	97,689,202	13,023,396	3,617,195	16,640,591	114,329,793
Depreciation and amortization	436,148	67,249	81,299	71,983	8,657	665,336	1,436,077	7,481	1,443,558	2,108,894
Total expenses	\$ 60,154,787	\$ 17,611,053	\$ 14,908,379	\$ 4,154,716	\$ 1,525,603	\$ 98,354,538	\$ 14,459,473	\$ 3,624,676	\$ 18,084,149	\$ 116,438,687

See notes to consolidated financial statements.

The Children's Home Society of Florida and Subsidiaries

Consolidated Statements of Cash Flows
Years Ended June 30, 2019 and 2018

	2019	2018
Cash flows from operating activities:		
Change in net assets	\$ 243,777	\$ 1,674,527
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation and amortization	2,079,582	2,108,894
Net realized and unrealized gains on investments	(414,739)	(322,465)
Change in beneficial interests	(581,618)	(1,127,463)
Gain on sale/disposal of property and equipment	(2,530,532)	(107,238)
Provision for doubtful accounts	458,099	380,308
Changes in operating assets and liabilities:		
Receivables	(439,172)	1,402,937
Prepaid expenses and other assets	(347,209)	467,145
Accounts payable	(850,441)	1,185,814
Accrued expenses	2,193,306	(755,096)
Deferred revenue and other liabilities	65,851	(20,208)
Pension liability	1,771,738	(1,201,012)
Net cash provided by operating activities	1,648,642	3,686,143
Cash flows from investing activities:		
Purchases of property and equipment	(519,564)	(1,437,861)
Proceeds from sale of property and equipment	4,924,353	359,983
Proceeds from sale of investments	3,212,626	351,140
Purchases of investments	(3,590,688)	(952,733)
Net cash provided by (used in) investing activities	4,026,727	(1,679,471)
Cash flows from financing activities:		
Proceeds from debt and lines of credit	193,495	796,458
Principal payments on debt and lines of credit	(5,695,531)	(1,041,104)
Net cash used in financing activities	(5,502,036)	(244,646)
Net increase in cash and cash equivalents	173,333	1,762,026
Cash and cash equivalents:		
Beginning	5,224,697	3,462,671
Ending	\$ 5,398,030	\$ 5,224,697
Supplemental disclosure of cash flow information:		
Cash paid during the year for interest	\$ 777,620	\$ 479,548

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 nonprofit organization, which provides effective solutions to build and support healthy families for Florida's children.

CHS' major program services are as follows:

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

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

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

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

The Children's Home Society of Florida and Subsidiaries

Notes to Consolidated Financial Statements

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

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

A summary of CHS' significant accounting policies follows:

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

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

All intercompany balances have been eliminated in consolidation.

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

A nonprofit organization is required to report information regarding its financial position and activities according to two classes of net assets: without donor restrictions and with donor restrictions. Accordingly, net assets of CHS and changes therein are classified and reported as follows:

Net assets without donor restrictions: Net assets that are not subject to donor-imposed stipulations, but may be designated for specific purposes by action of the Board of Directors.

Net assets with donor restrictions: Net assets subject to donor-imposed stipulations that may or will be met either by actions of the organization, passage of time, or permanently maintained by the organization. When a restriction expires, net assets with donor restrictions are reclassified to net assets without donor restrictions and reported in the consolidated statements of activities as net assets released from restrictions.

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

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

The Children's Home Society of Florida and Subsidiaries

Notes to Consolidated Financial Statements

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

Receivables: Receivables are stated at net realizable value. Pledges that are expected to be collected in future years are recorded at the present value of their estimated future cash flows. The discounts on those amounts are computed using risk-free interest rates applicable to the years in which the pledges are received. CHS uses the allowance method to determine uncollectible receivables. The allowance is established based upon management's analysis of specific accounts and other economic factors. In the opinion of management, the allowance for doubtful accounts of \$601,896 and \$656,213 at June 30, 2019 and 2018, respectively, reflects management's best estimate of uncollectible accounts.

Investments and investment income: Investments are reported at fair value (see Note 6). Realized gains and losses are recorded at date of disposition based on the difference between the net proceeds and the cost of the investments sold, using the specific identification method. Unrealized gains and losses are reported for the changes in fair value between reporting periods. Interest and dividend income is recognized when earned. Investment income is reported within net assets without donor restrictions unless its use is 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, 2019 and 2018.

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 net assets with donor restrictions of the Foundation are reported as a change in beneficial interest in the consolidated statements of activities.

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

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

The Children's Home Society of Florida and Subsidiaries

Notes to Consolidated Financial Statements

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 net assets with donor restrictions support if they are received with donor stipulations that limit the use of such assets. When donor restrictions expire, net assets with donor restrictions are reclassified to net assets without donor restrictions and reported in the consolidated statements of activities as net assets released from 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 \$16,600 and \$124,300 for the years ended June 30, 2019 and 2018, 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 \$977,900 and \$1,446,700 for the years ended June 30, 2019 and 2018, respectively, which is included in bequests, contributions and special events in the accompanying consolidated statements of activities.

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

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

The Children's Home Society of Florida and Subsidiaries

Notes to Consolidated Financial Statements

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, 2016.

Reclassifications: Certain amounts in the 2018 consolidated financial statements have been reclassified in order to conform with the 2019 presentation. These reclassifications had no effect on the previously reported results of operations or cash flows.

Recent accounting pronouncements: In May 2014, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) No. 2014-09, *Revenue from Contracts with Customers (Topic 606)*, requiring an entity to recognize the amount of revenue to which it expects to be entitled for the transfer of promised goods or services to customers. The update will replace most existing revenue recognition guidance in U.S. GAAP when it becomes effective and permits the use of either a full retrospective or retrospective with cumulative effect transition method. The updated standard will become effective for annual reporting periods beginning after December 15, 2018. Management expects to adopt the cumulative effect transition method and is currently evaluating the impact this ASU will have on its consolidated financial statements.

In February 2016, the FASB issued its new lease accounting guidance in ASU 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, 2020. CHS is currently evaluating the impact this ASU will have on its consolidated financial statements.

In June 2018, the FASB issued ASU 2018-08, *Not-for-Profit Entities (Topic 958): Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made*. ASU 2018-08 clarifies the guidance for evaluating whether a transaction is reciprocal (i.e., an exchange transaction) or nonreciprocal (i.e., a contribution) and for distinguishing between conditional and unconditional contributions. The amendments in the ASU should be applied on a modified prospective basis although retrospective application is permitted. Entities should apply the amendments for transactions in which the entity serves as the resource recipient to annual periods beginning after December 15, 2018. Entities should apply the amendments for transactions in which the entity serves as the resource provider to annual periods beginning after December 15, 2019. CHS is currently evaluating the impact this ASU will have on its 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 (Continued)

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

Change in accounting: In August 2016, the FASB issued ASU 2016-14, *Not-for Profit Entities (Topic 958): Presentation of Financial Statements of Not-for-Profit Entities*. ASU 2016-14 changes presentation and disclosure requirements for not-for-profit entities to provide qualitative and quantitative requirements as follows:

- Net assets presentation in two categories – net assets without donor restrictions and net assets with donor restrictions;
- Presentation of investment income net of investment expenses;
- Analysis of expenses by both natural and functional classification;
- Liquidity and availability of resources disclosure requirement;
- Presentation of operating cash flows using either direct or indirect methods, permits the use of direct method without reconciliation of change in net assets to net cash flows from operating activities.

As a result of ASU No. 2016-14 adoption, CHS has adjusted the presentation of these consolidated financial statements accordingly. The ASU has been applied retrospectively to all periods presented.

Subsequent events: Management has assessed subsequent events through October 31, 2019, the date the consolidated financial statements were available to be issued.

Note 2. Net Assets with Donor Restrictions

Net assets with donor restrictions are restricted for the following purposes as of June 30, 2019 and 2018:

	2019	2018
Restricted for specified purposes:		
Beneficial interest in the net assets of The Children's Home Society of Florida Foundation, Inc.	\$ 15,392,100	\$ 14,885,820
Beneficial interest in assets held by others – Community Foundation of Tampa Bay, Inc.	(68,457)	(97,594)
Other	79,560	-
	<u>15,403,203</u>	<u>14,788,226</u>
Restricted in perpetuity:		
Beneficial interest in the net assets of The Children's Home Society of Florida Foundation, Inc.	9,019,385	8,973,184
Beneficial interest in assets held by others – Community Foundation of Tampa Bay, Inc.	960,572	960,572
	<u>9,979,957</u>	<u>9,933,756</u>
	<u>\$ 25,383,160</u>	<u>\$ 24,721,982</u>

The Children's Home Society of Florida and Subsidiaries

Notes to Consolidated Financial Statements

Note 2. Net Assets with Donor Restrictions (Continued)

As of June 30, 2019 and 2018, net assets of \$993,601 and \$1,018,754, respectively, were released from donor restrictions by incurring expenses satisfying the restricted purposes.

Note 3. Receivables

Receivables consisted of the following at June 30, 2019 and 2018:

	2019	2018
Community based care contracts	\$ 5,166,055	\$ 5,290,156
Other contracts	3,274,700	3,179,632
Government contracts	2,592,516	2,250,677
Pledges	1,202,354	1,674,072
Medicaid	965,051	976,830
	<u>13,200,676</u>	<u>13,371,367</u>
Less allowance for doubtful accounts	(601,896)	(656,213)
Less discount for time-value of money	(62,919)	(160,366)
	<u>\$ 12,535,861</u>	<u>\$ 12,554,788</u>

Pledges that are included above are unconditional promises to give at June 30, 2019 and 2018, and are summarized as follows:

	2019	2018
Amounts due:		
Within one year	\$ 297,240	\$ 313,150
One to five years	849,344	1,076,875
More than five years	55,770	284,047
	<u>1,202,354</u>	<u>1,674,072</u>
Less allowance for doubtful accounts	(98,838)	(152,250)
Less discount for time-value of money	(62,919)	(160,366)
	<u>\$ 1,040,597</u>	<u>\$ 1,361,456</u>

The Children's Home Society of Florida and Subsidiaries

Notes to Consolidated Financial Statements

Note 4. Investments

The fair value of investments at June 30, 2019 and 2018, consists of the following:

	2019	2018
Mutual funds:		
Large blend fund	\$ 4,179,760	\$ 6,152,107
Intermediate-term bond fund	2,919,293	2,486,391
Foreign large blend fund	2,006,891	1,981,350
Mid-cap growth fund	1,352,856	1,474,067
Large growth fund	1,275,509	54,182
Large value fund	1,157,873	-
Multi-asset income fund	664,520	-
Multi-sector bond fund	610,709	554,740
Target date fund	152,594	209,615
Short government fund	9,462	9,018
Moderated allocation fund	-	622,727
Real estate investment trust	545,973	538,442
	<u>\$ 14,875,440</u>	<u>\$ 14,082,639</u>

Note 5. Property and Equipment

Property and equipment consisted of the following at June 30, 2019 and 2018:

	2019	2018
Land	\$ 3,032,455	\$ 4,184,035
Buildings and improvements	36,394,113	39,335,286
Furniture and equipment	12,360,214	19,331,455
Leasehold improvements	1,035,817	1,002,765
	<u>52,822,599</u>	<u>63,853,541</u>
Less accumulated depreciation	(25,543,357)	(32,572,159)
	<u>\$ 27,279,242</u>	<u>\$ 31,281,382</u>

Depreciation and amortization expense of property and equipment for the years ended June 30, 2019 and 2018, was approximately \$2,080,000 and \$2,109,000, respectively.

The Children's Home Society of Florida and Subsidiaries

Notes to Consolidated Financial Statements

Note 6. Fair Value Measurements

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

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

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

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

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

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

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

The Children’s Home Society of Florida and Subsidiaries

Notes to Consolidated Financial Statements

Note 6. Fair Value Measurements (Continued)

The tables below represent CHS’ financial assets measured at fair value on a recurring basis by level within the hierarchy at June 30, 2019 and 2018:

	2019			
	Fair Value Measurements Using			Total
	Level 1	Level 2	Level 3	
Investments:				
Mutual funds:				
Large blend fund	\$ 4,179,760	\$ -	\$ -	\$ 4,179,760
Intermediate-term bond fund	2,919,293	-	-	2,919,293
Foreign large blend fund	2,006,891	-	-	2,006,891
Mid-cap growth fund	1,352,856	-	-	1,352,856
Large growth fund	1,275,509	-	-	1,275,509
Large value fund	1,157,873	-	-	1,157,873
Multi-asset income fund	664,520	-	-	664,520
Multi-sector bond fund	610,709	-	-	610,709
Target date fund	152,594	-	-	152,594
Short government fund	9,462	-	-	9,462
Total investments in fair value hierarchy	14,329,467	-	-	14,329,467
Real estate investment trust measured at net asset value (a)	-	-	-	545,973
Total investments at fair value	\$ 14,329,467	\$ -	\$ -	\$ 14,875,440
Beneficial interest in assets held by others – Community Foundation of Tampa Bay, Inc.	\$ -	\$ -	\$ 892,115	\$ 892,115

The Children’s Home Society of Florida and Subsidiaries

Notes to Consolidated Financial Statements

Note 6. Fair Value Measurements (Continued)

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

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

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

The Children's Home Society of Florida and Subsidiaries

Notes to Consolidated Financial Statements

Note 6. Fair Value Measurements (Continued)

The following table sets forth additional disclosures of CHS' investments whose fair value is estimated using net asset value per share (or its equivalents) as of June 30, 2019 and 2018:

	Fair Value	Unfunded Commitment	Redemption Frequency	Redemption Notice Period
<u>June 30, 2019</u>				
Real estate investment trust	<u>\$ 545,973</u>	<u>\$ -</u>	Daily	90 days
<u>June 30, 2018</u>				
Real estate investment trust	<u>\$ 538,442</u>	<u>\$ -</u>	Daily	90 days

The table below sets forth a summary of the changes in the fair value of CHS' Level 3 financial assets (beneficial interest in assets held by others – Community Foundation of Tampa Bay, Inc.) during the years ended June 30, 2019 and 2018:

	2019	2018
Balance, beginning of year	\$ 862,978	\$ 868,229
Net realized and unrealized gains	20,016	49,227
Interest and dividend income	16,931	14,883
Distributions to CHS	-	(61,985)
Investment manager and administrative fees	(7,810)	(7,376)
Balance, end of year	<u>\$ 892,115</u>	<u>\$ 862,978</u>

Note 7. Accrued Expenses

Accrued expenses consisted of the following at June 30, 2019 and 2018:

	2019	2018
Accrued salaries and benefits	\$ 5,761,111	\$ 3,550,960
Accrued vacation	2,044,250	2,190,758
Other	1,071,302	941,639
	<u>\$ 8,876,663</u>	<u>\$ 6,683,357</u>

The Children's Home Society of Florida and Subsidiaries

Notes to Consolidated Financial Statements

Note 8. Debt and Lines of Credit

Debt and lines of credit consisted of the following at June 30, 2019 and 2018:

	2019	2018
Note payable to a bank, due in monthly principal payments of \$55,360 plus interest. The note bears interest at a variable interest rate based on the one-month LIBOR interest rate plus 1.50% (3.93% at June 30, 2019). The note matures in May 2022, at which time, the entire unpaid principal is due and payable. The note is collateralized by substantially all the assets of CHS.	\$11,204,027	\$13,120,320
Note payable to a bank, due in monthly principal payments of \$39,286 plus interest. The note bore interest at a variable interest rate based on the one-month LIBOR interest rate plus 2.50%. The note was re-paid during the year ended June 30, 2019.	-	2,789,285
Line of credit to a bank, with a maximum draw of \$1,000,000. The line of credit bore interest at a variable interest rate based on the one-month LIBOR interest rate plus 2.45% and was payable monthly. The line of credit was re-paid and closed during the year ended Jun 30, 2019.	-	796,458
Note payable to the City of Jacksonville, Florida, to finance construction of transitional housing for youths aging out of foster care. The note is non-interest-bearing and matures in March 2025. As described in the note agreement, if there is no uncured event of default upon the maturity date, then the outstanding balance will be forgiven and cancelled by the City of Jacksonville. At the time of debt forgiveness, CHS will recognize a gain in the consolidated statements of activities equal to the outstanding debt balance. The note is collateralized by property in Jacksonville, Florida.	740,822	740,822
Note payable to the Florida Housing Finance Corporation to finance construction of transitional housing for youths aging out of foster care. The note is non-interest-bearing and matures in March 2024, at which time, the entire unpaid principal is due and payable. The note is collateralized by property in Jacksonville, Florida.	248,788	248,788
Note payable to the Florida Housing Finance Corporation to finance construction of transitional housing for youths aging out of foster care. The note is non-interest-bearing and matures in July 2026, at which time, the entire unpaid principal is due and payable. The note is collateralized by property in Sebring, Florida.	750,000	750,000
Note payable to the County of Escambia, Florida, to finance construction of transitional housing for homeless pregnant women or women with children. The note is non-interest-bearing and matures in January 2023. As described in the note agreement, if there is no uncured event of default upon the maturity date, then the outstanding balance will be forgiven and cancelled by the County of Escambia. At the time of debt forgiveness, CHS will recognize a gain in the consolidated statements of activities equal to the outstanding debt balance. The note is collateralized by property in Pensacola, Florida.	120,000	120,000
	<u>\$13,063,637</u>	<u>\$18,565,673</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 and lines of credit as of June 30, 2019, are as follows:

	<u>Amount</u>
Years ending June 30:	
2020	\$ 1,064,320
2021	664,320
2022	9,475,387
2023	120,000
2024	248,788
Thereafter	1,490,822
	<u>\$ 13,063,637</u>

CHS has a \$5,000,000 revolving line of credit with a bank bearing interest at the one-month LIBOR interest rate plus 1.95% (3.95% at June 30, 2019). Interest on the line of credit is payable monthly and matures on December 2, 2019. The line of credit is collateralized by substantially all assets of CHS. There was no outstanding balance on the line of credit at June 30, 2019 and 2018.

Under the terms of the agreements for the notes payable to a bank and the lines of credit, CHS is required to maintain certain financial covenants relating to fixed charge coverage ratio and minimum unrestricted liquidity coverage. As of June 30, 2019, CHS was in compliance with these financial covenants.

The Children's Home Society of Florida and Subsidiaries

Notes to Consolidated Financial Statements

Note 9. Commitments and Contingencies

Leases: Certain premises used by operating regions are occupied under operating leases, ranging up to seven years. Rent expense under all leases was approximately \$2,579,000 and \$2,588,000 for the years ended June 30, 2019 and 2018, respectively.

Future minimum lease payments under these operating leases as of June 30, 2019, are as follows:

	<u>Amount</u>
Years ending June 30:	
2020	\$ 2,151,835
2021	1,545,550
2022	1,432,265
2023	1,255,065
2024	1,168,501
	<u>\$ 7,553,216</u>

Workers' Compensation: 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 expenses is a workers' compensation liability, which represents the estimated amount due for open claims and claims incurred but not reported, totaling approximately \$139,700 and \$625,700 at June 30, 2019 and 2018, respectively.

Self-insurance: In July 2018, CHS entered into a partial self-insurance plan that provides medical and other healthcare benefits to certain employees and covered dependents. CHS mitigates risk through a stop loss insurance policy, covering costs above \$275,000 per plan, per individual per plan year, through a commercial excess coverage policy. Undiscounted estimated reserves for claims incurred but not yet reported totaled approximately \$1,000,000 at June 30, 2019 and is included in accrued expenses in the accompanying consolidated statements of financial position.

Note 10. Liquidity and Availability of Resources

As of June 30, 2019, the following reflects CHS's financial assets, reduced by amounts not available for general use because of contractual or donor-imposed restrictions within one year of June 30, 2019.

	<u>2019</u>
Financial assets, at year-end	
Cash and cash equivalents	\$ 5,398,030
Receivables, net	12,535,861
Investments	14,875,440
Less those unavailable for general expenditures within one year, due to:	
Pledges receivable due in greater than one year	(767,791)
Contractual or donor-imposed restrictions:	
Restricted by donors with purpose restrictions	<u>(79,560)</u>
Financial assets available to meet cash needs for general expenditures within one year	<u>\$ 31,961,980</u>

CHS has a policy of maintaining access to financial assets sufficient to support a minimum of 60 days of operating expenses through a combination of cash, cash equivalents, investments and a \$5,000,000 revolving line of credit.

The Children's Home Society of Florida and Subsidiaries

Notes to Consolidated Financial Statements

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. Massachusetts Mutual Life Insurance Company serves as the Plan's actuary.

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

During the year ended June 30, 2013, lump sum settlement benefit payments resumed. During the years ended June 30, 2019 and 2018, lump sum settlement payments were \$2,308,039 and \$4,972,108, 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, 2019, and a statement of the funded status as of June 30, 2019 and 2018:

	2019	2018
Accumulated benefit obligation at end of year	<u>\$ 36,362,840</u>	<u>\$ 34,757,835</u>
Change in projected benefit obligation:		
Projected benefit obligation at beginning of year	\$ 34,757,835	\$ 41,503,232
Interest cost	1,346,480	1,323,220
Actuarial loss (gain)	3,051,977	(2,665,304)
Benefit payments	(485,413)	(431,205)
Lump sum settlement benefit payments	(2,308,039)	(4,972,108)
Projected benefit obligation at end of year	<u>\$ 36,362,840</u>	<u>\$ 34,757,835</u>
Change in fair value of plan assets:		
Fair value of plan assets at beginning of year	\$ 28,327,024	\$ 33,871,409
Actual return on plan assets	3,127,964	404,751
Employer contributions	-	-
Expenses	(501,245)	(545,823)
Benefit payments	(485,413)	(431,205)
Lump sum settlement benefit payments	(2,308,039)	(4,972,108)
Fair value of plan assets at end of year	<u>\$ 28,160,291</u>	<u>\$ 28,327,024</u>
Unfunded status at end of year	<u>\$ (8,202,549)</u>	<u>\$ (6,430,811)</u>

The unfunded status as of June 30, 2019 and 2018, of \$8,202,549 and \$6,430,811, respectively, are recorded as pension liability in the accompanying consolidated statements of financial position.

The Children's Home Society of Florida and Subsidiaries

Notes to Consolidated Financial Statements

Note 11. Retirement Plans (Continued)

Pension related changes other than net periodic benefit cost for the years ended June 30, 2019 and 2018, are as follows:

	2019	2018
Net actuarial loss (gain)	\$ 2,046,767	\$ (936,137)
Amortization of actuarial loss	(911,289)	(1,141,607)
Amount recognized due to settlement	(634,412)	(1,357,527)
Pension related changes other than net periodic benefit cost	<u>\$ 501,066</u>	<u>\$ (3,435,271)</u>

The table below represents CHS' pension plan assets measured at fair value by level within the hierarchy (see Note 6) as of June 30, 2019 and 2018:

	2019			
	Fair Value Measurements Using			Total
	Level 1	Level 2	Level 3	
Equity securities:				
Pooled separate accounts:				
Domestic equities	\$ -	\$ 4,384,183	\$ -	\$ 4,384,183
International equities	-	3,557,718	-	3,557,718
Debt securities:				
Pooled separate accounts:				
Long government bond fund	-	5,297,090	-	5,297,090
Long-term bond fund	-	14,921,300	-	14,921,300
	<u>\$ -</u>	<u>\$ 28,160,291</u>	<u>\$ -</u>	<u>\$ 28,160,291</u>
	2018			
	Fair Value Measurements Using			Total
	Level 1	Level 2	Level 3	
Equity securities:				
Pooled separate accounts:				
Domestic equities	\$ -	\$ 5,560,557	\$ -	\$ 5,560,557
International equities	-	4,475,570	-	4,475,570
Debt securities:				
Pooled separate accounts:				
Long government bond fund	-	2,188,513	-	2,188,513
Long-term bond fund	-	16,102,384	-	16,102,384
	<u>\$ -</u>	<u>\$ 28,327,024</u>	<u>\$ -</u>	<u>\$ 28,327,024</u>

The Children's Home Society of Florida and Subsidiaries

Notes to Consolidated Financial Statements

Note 11. Retirement Plans (Continued)

CHS' pension plan weighted-average asset allocations at June 30, 2019 and 2018, by asset category are as follows:

	Target	Percentage of Plan	
	Allocation	Assets at June 30,	
	2020	2019	2018
Equity securities	30%	28%	35%
Debt securities	70%	72%	65%
	100%	100%	100%

Expected return on Plan assets: The expected rate of return on Plan assets is 6.0%, which reflects the average rate of earnings that CHS estimates will be generated on the assets of the Plan.

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

The components of net periodic benefit cost for the Plan's fiscal years 2019 and 2018, are as follows:

	2019	2018
Interest cost	\$ 1,346,480	\$ 1,323,220
Expected return on plan assets	(1,621,509)	(1,588,095)
Amortization of actuarial loss	911,289	1,141,607
Amount recognized due to settlement	634,412	1,357,527
Net periodic benefit cost	<u>\$ 1,270,672</u>	<u>\$ 2,234,259</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, 2020, are \$0.

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

	Amount
Years ending June 30:	
2020	\$ 2,987,029
2021	1,968,773
2022	2,849,474
2023	2,405,510
2024	2,236,485
2025 – 2029	10,384,306

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:

	2019	2018
Weighted-average assumptions as of June 30:		
Discount rate	3.40%	3.90%
Expected return on plan assets	6.00%	6.00%
Rate of compensation increase	N/A	N/A
	2019	2018
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, 2019	June 30, 2018

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 three years of service. Employer contributions were approximately \$1,150,000 and \$1,285,000, respectively, for the years ended June 30, 2019 and 2018.

CHS also has a 457(b) thrift plan for eligible employees. Eligible employees may make voluntary contributions from accumulated vacation pay in excess of 240 hours before deferral, but limited each plan year to deferral contributions equal to no more than 80 hours of accumulated vacation pay. CHS makes non-elective contributions annually to the plan. Employer contributions are 100% vested upon contribution. There were no employer contributions during the years ended June 30, 2019 and 2018.

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' consolidated 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, 2019 and 2018:

	2019	2018
Beneficial interest in the net assets of The Children's Home Society of Florida Foundation, Inc., reported on the equity method	\$ 24,411,485	\$ 23,859,004
Beneficial interest in assets held by others – Community Foundation of Tampa Bay, Inc., reported at fair value	892,115	862,978
	<u>\$ 25,303,600</u>	<u>\$ 24,721,982</u>

At June 30, 2019 and 2018, CHS's beneficial interest in the net assets of The Children's Home Society of Florida Foundation, Inc. (Foundation) was \$24,411,485 and \$23,859,004, respectively, which is included in the accompanying consolidated statements of financial position. The net assets with donor restrictions – restricted for specified purposes change in beneficial interest in the net assets of the Foundation was \$1,372,644 and \$1,972,674, net of distributions to CHS of \$866,364 and \$988,352, for the years ended June 30, 2019 and 2018, respectively, which is included in the accompanying consolidated statements of activities. The net assets with donor restrictions – restricted in perpetuity change in beneficial interest in the net assets of the Foundation was \$46,201 and \$148,392 for the years ended June 30, 2019 and 2018, respectively, which is included in the accompanying consolidated statements of activities.

At June 30, 2019 and 2018, 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, 2019 and 2018, the endowment fund has a fair value of \$892,115 and \$862,978, respectively, which is included in the accompanying consolidated statements of financial position. The net assets with donor restrictions – restricted for specified purposes change in beneficial interest in assets held by others was \$29,137 and \$(5,251) for the years ended June 30, 2019 and 2018, respectively, which is included in the accompanying consolidated statements of activities. There was no change in net assets with donor restrictions – restricted in perpetuity in the beneficial interest in assets held by others for the years ended June 30, 2019 and 2018.

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

Independent Auditor's Report

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

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the consolidated financial statements of The Children's Home Society of Florida and its subsidiaries, which comprise the consolidated statement of financial position as of June 30, 2019, and the related consolidated statements of activities, functional expenses and cash flows for the year then ended, and the related notes to the consolidated financial statements, and have issued our report thereon dated October 31, 2019.

Internal Control Over Financial Reporting

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

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

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

Compliance and Other Matters

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

Purpose of This Report

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

RSM US LLP

Orlando, Florida
October 31, 2019