

The Children's Home Society of Florida and Subsidiaries

Consolidated Financial Report
June 30, 2023

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RSM US LLP

Independent Auditor's Report

Audit Committee
The Children's Home Society of Florida

Report on the Audit of the Financial Statements

Opinion

We have audited the consolidated financial statements of The Children's Home Society of Florida and its subsidiaries (the Organization), which comprise the consolidated statements of financial position as of June 30, 2023 and 2022, 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 (collectively, the financial statements).

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Organization as of June 30, 2023 and 2022, 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.

Basis for Opinion

We conducted our audits in accordance with auditing standards generally accepted in the United States of America (GAAS) and the standards applicable to the financial audits contained in *Government Auditing Standards*, issued by the Comptroller of the United States (*Government Auditing Standards*). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the Organization and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audits. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Emphasis of Matter

As discussed in Note 1 to the financial statements, effective July 1, 2022, the Organization adopted Financial Accounting Standards Board Accounting Standards Codification Topic 842, *Leases*. Our opinion is not modified with respect to this matter.

Responsibilities of Management for the Financial Statements

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

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the Organization's ability to continue as a going concern within one year after the date that the financial statements are issued or available to be issued.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and, therefore, is not a guarantee that an audit conducted in accordance with GAAS and *Government Auditing Standards* will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with GAAS and *Government Auditing Standards*, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit 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 Organization's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Organization's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings and certain internal control-related matters that we identified during the audit.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated December 15, 2023, on our consideration of the Organization'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 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 Organization's 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 Organization's internal control over financial reporting and compliance.

RSM US LLP

Orlando, Florida
December 15, 2023

The Children’s Home Society of Florida and Subsidiaries

Consolidated Statements of Financial Position
June 30, 2023 and 2022

	2023	2022
Assets		
Cash and cash equivalents	\$ 2,397,271	\$ 6,347,271
Receivables, net	10,074,291	11,313,832
Prepaid expenses and other assets	1,074,135	905,985
Investments	18,821,587	16,891,387
Pension asset	-	855,802
Beneficial interest	28,052,978	25,557,013
Right-of-use lease assets—operating	5,675,100	-
Property and equipment, net	11,921,799	14,786,505
	<u>11,921,799</u>	<u>14,786,505</u>
Total assets	\$ 78,017,161	\$ 76,657,795
Liabilities and Net Assets		
Liabilities:		
Accounts payable	\$ 2,050,227	\$ 1,958,798
Accrued expenses	4,789,241	5,309,037
Refundable advances	2,078,081	1,972,283
Held in custody for account of others	1,042,808	1,045,425
Right-of-use lease liabilities—operating	5,721,367	-
Debt and line of credit	6,434,046	7,202,184
	<u>6,434,046</u>	<u>7,202,184</u>
Total liabilities	22,115,770	17,487,727
Commitments and contingencies (Notes 9 and 10)		
Net assets:		
Without donor restrictions	27,834,961	33,584,378
With donor restrictions	28,066,430	25,585,690
	<u>28,066,430</u>	<u>25,585,690</u>
Total net assets	55,901,391	59,170,068
	<u>55,901,391</u>	<u>59,170,068</u>
Total liabilities and net assets	\$ 78,017,161	\$ 76,657,795
	<u>\$ 78,017,161</u>	<u>\$ 76,657,795</u>

See notes to consolidated financial statements.

The Children's Home Society of Florida and Subsidiaries

Consolidated Statement of Activities
Year Ended June 30, 2023

	2023		
	Without Donor Restrictions	With Donor Restrictions	Total
Operating public support and revenues:			
Operating public support:			
United Way	\$ 983,886	\$ -	\$ 983,886
Bequests, contributions and special events	6,239,891	384,740	6,624,631
In-kind contributions	1,842,685	-	1,842,685
Total operating public support	9,066,462	384,740	9,451,202
Revenue from service contracts	72,860,491	-	72,860,491
Adoptive and other service fees	636,579	-	636,579
Investment income, net	581,818	-	581,818
Loss on sale of property and equipment	(284,469)	-	(284,469)
Other revenues	666,016	-	666,016
Net assets released from restrictions	1,678,014	(1,678,014)	-
Total operating public support and revenues	85,204,911	(1,293,274)	83,911,637
Operating expenses:			
Program services	77,017,200	-	77,017,200
Supporting services:			
Management and general	11,784,046	-	11,784,046
Fundraising	3,500,641	-	3,500,641
Total supporting services	15,284,687	-	15,284,687
Total operating expenses	92,301,887	-	92,301,887
Change in net assets from operations	(7,096,976)	(1,293,274)	(8,390,250)
Other changes:			
Change in beneficial interest	-	3,774,014	3,774,014
Net realized and unrealized gains on investments	1,347,559	-	1,347,559
Change in other changes	1,347,559	3,774,014	5,121,573
Change in net assets	(5,749,417)	2,480,740	(3,268,677)
Net assets:			
Beginning	33,584,378	25,585,690	59,170,068
Ending	\$ 27,834,961	\$ 28,066,430	\$ 55,901,391

See notes to consolidated financial statements.

The Children's Home Society of Florida and Subsidiaries

Consolidated Statement of Activities
Year Ended June 30, 2022

	2022		Total
	Without Donor Restrictions	With Donor Restrictions	
Operating public support and revenues:			
Operating public support:			
United Way	\$ 1,093,360	\$ -	\$ 1,093,360
Bequests, contributions and special events	5,557,044	469,302	6,026,346
In-kind contributions	1,381,624	-	1,381,624
Total operating public support	8,032,028	469,302	8,501,330
Revenue from service contracts	81,687,121	-	81,687,121
Adoptive and other service fees	435,339	-	435,339
Investment income, net	547,460	-	547,460
Gain on sale of property and equipment	5,597,891	-	5,597,891
Other revenues	861,981	-	861,981
Net assets released from restrictions	1,504,154	(1,504,154)	-
Total operating public support and revenues	98,665,974	(1,034,852)	97,631,122
Operating expenses:			
Program services	78,162,253	-	78,162,253
Supporting services:			
Management and general	11,567,253	-	11,567,253
Fundraising	3,404,596	-	3,404,596
Total supporting services	14,971,849	-	14,971,849
Total operating expenses	93,134,102	-	93,134,102
Change in net assets from operations	5,531,872	(1,034,852)	4,497,020
Other changes:			
Change in beneficial interest	-	(3,498,200)	(3,498,200)
Net realized and unrealized losses on investments	(2,820,601)	-	(2,820,601)
Other components of net periodic benefit cost	(14,388,160)	-	(14,388,160)
Pension related changes other than net periodic benefit cost	7,631,177	-	7,631,177
Change in other changes	(9,577,584)	(3,498,200)	(13,075,784)
Change in net assets	(4,045,712)	(4,533,052)	(8,578,764)
Net assets:			
Beginning	37,630,090	30,118,742	67,748,832
Ending	\$ 33,584,378	\$ 25,585,690	\$ 59,170,068

See notes to consolidated financial statements.

The Children's Home Society of Florida and Subsidiaries

Consolidated Statement of Functional Expenses Year Ended June 30, 2023

	Program Services				Supporting Services			Total Functional Expenses	
	Child Welfare Solutions	Behavioral Health Solutions	Early Childhood Solutions	Community Solutions	Total Program Services	Management and General	Fund Raising		Total Supporting Services
Salaries	\$ 21,202,700	\$ 8,307,670	\$ 9,749,601	\$ 7,277,430	\$ 46,537,401	\$ 6,568,574	\$ 1,897,059	\$ 8,465,633	\$ 55,003,034
Employee benefits	3,439,271	1,321,112	1,581,041	1,193,369	7,534,793	1,128,898	323,334	1,452,232	8,987,025
Payroll taxes and other	1,769,147	693,139	805,646	597,884	3,865,816	406,963	141,998	548,961	4,414,777
Total salaries and related expenses	26,411,118	10,321,921	12,136,288	9,068,683	57,938,010	8,104,435	2,362,391	10,466,826	68,404,836
Professional fees	438,502	461,106	116,538	604,962	1,621,108	921,370	132,549	1,053,919	2,675,027
Supplies	120,142	14,259	96,904	116,489	347,794	8,538	7,660	16,198	363,992
Communications	522,023	498,514	327,615	182,025	1,530,177	964,738	126,222	1,090,960	2,621,137
Postage and shipping	17,515	9,672	13,120	7,392	47,699	11,758	19,774	31,532	79,231
Occupancy	1,656,155	216,777	1,094,092	898,582	3,865,606	146,738	19,673	166,411	4,032,017
Rental and maintenance of equipment	198,625	107,430	132,951	98,277	537,283	63,181	11,979	75,160	612,443
Printing and publications	20,218	2,391	22,122	36,968	81,699	61,636	32,246	93,882	175,581
Travel	1,119,430	96,345	450,379	211,565	1,877,719	106,381	48,404	154,785	2,032,504
Conferences, conventions and meetings	34,537	28,657	56,342	61,105	180,641	60,989	14,344	75,333	255,974
Specific assistance to individuals	1,354,969	573,897	1,174,534	765,650	3,869,050	4,455	59,553	64,008	3,933,058
Membership dues	39,906	85	57,927	6,028	103,946	65,028	34,693	99,721	203,667
Interest	523	-	-	-	523	385,332	-	385,332	385,855
Insurance	687,234	331,676	222,207	137,540	1,378,657	72,746	24,704	97,450	1,476,107
Provision for bad debt	1,448,294	250,324	58,529	9,732	1,766,879	2,855	-	2,855	1,769,734
Contributed goods	380,606	2,737	408,748	267,877	1,059,968	-	338,804	338,804	1,398,772
Other	97,863	47,420	49,617	23,829	218,729	214,124	262,817	476,941	695,670
Total before depreciation and amortization	34,547,660	12,963,211	16,417,913	12,496,704	76,425,488	11,194,304	3,495,813	14,690,117	91,115,605
Depreciation and amortization	350,052	64,438	93,299	83,923	591,712	589,742	4,828	594,570	1,186,282
Total expenses	\$ 34,897,712	\$ 13,027,649	\$ 16,511,212	\$ 12,580,627	\$ 77,017,200	\$ 11,784,046	\$ 3,500,641	\$ 15,284,687	\$ 92,301,887

See notes to consolidated financial statements.

The Children's Home Society of Florida and Subsidiaries

Consolidated Statement of Functional Expenses Year Ended June 30, 2022

	Program Services				Supporting Services			Total Functional Expenses	
	Child Welfare Solutions	Behavioral Health Solutions	Early Childhood Solutions	Community Solutions	Total Program Services	Management and General	Fund Raising		Total Supporting Services
Salaries	\$ 24,362,862	\$ 7,949,705	\$ 9,425,726	\$ 6,352,661	\$ 48,090,954	\$ 6,207,768	\$ 1,950,459	\$ 8,158,227	\$ 56,249,181
Employee benefits	3,829,627	1,216,638	1,454,906	962,298	7,463,469	704,644	337,604	1,042,248	8,505,717
Payroll taxes and other	2,156,539	712,966	830,410	553,451	4,253,366	400,123	149,902	550,025	4,803,391
Total salaries and related expenses	30,349,028	9,879,309	11,711,042	7,868,410	59,807,789	7,312,535	2,437,965	9,750,500	69,558,289
Professional fees	714,129	574,850	156,307	796,518	2,241,804	1,113,666	101,025	1,214,691	3,456,495
Supplies	128,464	13,754	92,344	164,407	398,969	10,720	12,440	23,160	422,129
Communications	531,140	225,900	245,445	143,714	1,146,199	966,259	129,431	1,095,690	2,241,889
Postage and shipping	23,886	8,164	13,527	4,390	49,967	15,497	26,803	42,300	92,267
Occupancy	1,294,816	261,962	978,861	856,330	3,391,969	614,228	35,679	649,907	4,041,876
Rental and maintenance of equipment	142,928	55,255	97,625	119,184	414,992	89,375	12,398	101,773	516,765
Printing and publications	23,564	4,422	40,758	41,216	109,960	123,891	65,976	189,867	299,827
Travel	1,447,728	102,282	306,966	170,941	2,027,917	87,379	43,079	130,458	2,158,375
Conferences, conventions and meetings	75,603	67,460	91,999	50,550	285,612	125,962	6,737	132,699	418,311
Specific assistance to individuals	1,868,664	484,444	1,156,234	626,491	4,137,833	1,147	107,049	108,196	4,246,029
Membership dues	54,327	1,708	45,301	38,313	139,649	102,868	4,172	107,040	246,689
Interest	236	-	-	-	236	29,220	-	29,220	29,456
Insurance	890,311	270,198	217,286	126,643	1,504,438	153,191	23,545	176,736	1,681,174
Provision for bad debt (recovery)	22,746	488,668	235,835	26,828	774,077	(316,628)	-	(316,628)	457,449
Contributed goods	296,343	1,065	353,078	229,563	880,049	-	113,050	113,050	993,099
Other	193,942	24,502	36,567	29,283	284,294	246,311	279,475	525,786	810,080
Total before depreciation and amortization	38,057,855	12,463,943	15,781,175	11,292,781	77,595,754	10,675,621	3,398,824	14,074,445	91,670,199
Depreciation and amortization	323,375	68,151	80,974	93,999	566,499	891,632	5,772	897,404	1,463,903
Total expenses	\$ 38,381,230	\$ 12,532,094	\$ 15,862,149	\$ 11,386,780	\$ 78,162,253	\$ 11,567,253	\$ 3,404,596	\$ 14,971,849	\$ 93,134,102

See notes to consolidated financial statements.

The Children's Home Society of Florida and Subsidiaries

Consolidated Statements of Cash Flows
Years Ended June 30, 2023 and 2022

	2023	2022
Cash flows from operating activities:		
Change in net assets	\$ (3,268,677)	\$ (8,578,764)
Adjustments to reconcile change in net assets to net cash used in operating activities:		
Depreciation and amortization	1,186,282	1,463,903
Net realized and unrealized (gains) losses on investments	(1,347,559)	2,820,601
Change in beneficial interest	(2,495,965)	4,534,426
Loss (gain) on sale of property and equipment	284,469	(5,597,891)
Provision for doubtful accounts	1,769,734	457,449
Forgiveness of debt	(120,000)	-
Changes in operating assets and liabilities:		
Receivables	(530,193)	(1,571,150)
Prepaid expenses and other assets	(168,150)	184,216
Pension asset	855,802	(855,802)
Right-of-use lease assets—operating	1,553,422	-
Accounts payable	91,429	147,445
Accrued expenses	(519,796)	(1,797,061)
Refundable advances	105,798	(389,951)
Right-of-use lease liabilities—operating	(1,507,155)	-
Pension liability	-	(7,986,176)
Net cash used in operating activities	(4,110,559)	(17,168,755)
Cash flows from investing activities:		
Purchases of property and equipment	(941,961)	(572,923)
Proceeds from sale of property and equipment	2,333,299	12,663,611
Proceeds from sale of investments	6,373,600	6,808,589
Purchases of investments	(6,956,241)	(8,022,607)
Net cash provided by investing activities	808,697	10,876,670
Cash flows from financing activities:		
Proceeds from debt and line of credit	-	6,050,000
Principal payments on debt and line of credit	(648,138)	(374,715)
Net cash (used in) provided by financing activities	(648,138)	5,675,285
Net decrease in cash and cash equivalents	(3,950,000)	(616,800)
Cash and cash equivalents:		
Beginning	6,347,271	6,964,071
Ending	\$ 2,397,271	\$ 6,347,271
Supplemental disclosure of cash flow information:		
Cash paid during the year for interest	\$ 401,158	\$ 22,129
Supplemental disclosure of cash flow information related to leases:		
Right-of-use lease assets obtained in exchange for operating lease obligations	\$ 7,228,522	\$ -

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 or the Organization) 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 operate 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 five, 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)

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 (Treasure Coast), LLC	ECIL Capital, LLC
Centennial Holdings (North Central), LLC	Centennial Holdings (Buckner), 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 interest, net realized and unrealized gains (losses) on investments, other components of net periodic benefit cost and pension related changes other than net periodic benefit cost.

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

Receivables: Receivables are stated at net realizable value. Pledges that are expected to be collected in future years are recorded at the present value of their estimated future cash flows. The discounts on those amounts are computed using risk-free interest rates applicable to the years in which the pledges are received. CHS uses the allowance method to determine uncollectible receivables. The allowance is established based upon management's analysis of specific accounts and other economic factors. In the opinion of management, the allowance for doubtful accounts of \$2,155,711 and \$803,575 at June 30, 2023 and 2022, 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). Investment income reported in the accompanying consolidated statements of activities includes interest and dividend income, net of investment expenses. Investments and realized and unrealized gains and losses are 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 three 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, 2023 and 2022.

Beneficial interest: The beneficial interest represents CHS' 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.

Operating public support and donor-imposed restrictions: Unconditional promises to give are recognized as contributions in the period received at their fair value. Conditional contributions or intentions to give, that is those with both a measurable performance or other barrier and a right of return or release, are not recognized until they become unconditional, that is, at the time when the conditions on which they depend on are substantially met. Contributions other than cash are recorded at their estimated fair value on the date received.

Unconditional contributions received are recorded as net assets without donor restrictions or net assets with donor restrictions support depending on the existence or nature of any donor-imposed restrictions. When a donor-imposed restriction expires, that is, when a stipulated time restriction ends or purpose restriction is accomplished, net assets with donor restrictions are reclassified into net assets without donor restrictions and are reported in the accompanying consolidated statements of activities as net assets released from restrictions.

The Children's Home Society of Florida and Subsidiaries

Notes to Consolidated Financial Statements

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

Contributed goods and classroom space are reflected in the accompanying consolidated financial statements at their estimated fair value at date of receipt. Contributed services are recognized and recorded at their estimated fair value only to the extent they create or enhance nonfinancial assets or require specialized skills, are provided by individuals possessing those skills, and would typically need to be purchased if not provided by donation. CHS records contributed goods, classroom space and services as in-kind support and expenses in the accompanying consolidated statements of activities and consolidated statements of functional expenses.

Revenue from service contracts: Revenue from service contracts are considered exchange transactions if each party receives and sacrifices commensurate value. Funds from these exchange transactions are not considered contributions and are deemed to be earned and reported as revenue at a point in time as performance obligations are met based on when services are provided and CHS does not believe it is required to provide additional services. Funds received in advance and not yet earned are recorded as deferred revenue. There was no deferred revenue at June 30, 2023 and 2022. Receivables from exchange transactions was \$566,437 and \$423,967 at June 30, 2023 and 2022, respectively. Revenue from service contracts related to exchange transactions was \$4,498,729 and \$6,510,991 for the years ended June 30, 2023 and 2022, respectively.

Revenue from service contracts not considered exchange transactions are recognized as revenue when the funds are utilized by CHS to carry out the activity stipulated by the service contract, thereby satisfying imposed barriers and/or rights of return. The services contracts can be terminated by the grantor or refunding can be required under certain circumstances coupled with other performance and/or control barriers. For these reasons, these service contract agreements are considered conditional. Accordingly, amounts received, but not recognized as revenue, are classified in the consolidated statements of financial position as refundable advances and was \$2,078,081 and \$1,972,283 at June 30, 2023 and 2022, respectively. Receivables from non-exchange transactions was \$11,142,236 and \$11,089,428 at June 30, 2023 and 2022, respectively. Revenue from service contracts related to non-exchange transactions was \$68,361,762 and \$75,176,130 for the years ended June 30, 2023 and 2022, respectively.

The Organization has conditional promises to give from grantors of approximately \$7,500,000 and \$9,534,000 as of June 30, 2023 and 2022, respectively. Future payments are contingent upon the Organization carrying out certain activities (meeting grant-imposed barriers) stipulated by the grant or contract.

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

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 consolidated 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 consolidated 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, 2020.

Recently adopted accounting pronouncements: In February 2016, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) 2016-02, *Leases (Topic 842)*, to increase transparency and comparability among organizations related to their leasing arrangements. The update requires lessees to recognize most leases on their consolidated statements of financial position as a right-of-use (ROU) lease assets representing the right to use an underlying asset and a ROU lease liabilities representing the obligation to make lease payments over the lease term, measured on a discounted basis. Topic 842 also requires additional disclosure of key quantitative and qualitative information for leasing arrangements. Similar to the previous lease guidance, the update retains a distinction between finance leases (similar to capital leases in Topic 840, *Leases*) and operating leases, with classification affecting the pattern of expense recognition in the consolidated statements of activities and changes in net assets. The Organization adopted Topic 842 on July 1, 2022, using the optional transition method to the modified retrospective approach, which eliminates the requirement to restate the prior-period consolidated financial statements. Under this transition provision, the Organization has applied Topic 842 to reporting periods beginning on July 1, 2022, while prior periods continue to be reported and disclosed in accordance with the Organization's historical accounting treatment under Topic 840, *Leases*.

The Organization elected the package of practical expedients under the transition guidance within Topic 842, in which the Organization does not reassess: (1) the historical lease classification, (2) whether any existing contracts at transition are or contain leases, or (3) the initial direct costs for any existing leases. The Organization has not elected to adopt the hindsight practical expedient, and therefore, will measure the ROU lease assets and ROU lease liabilities using the remaining portion of the lease term upon adoption of Topic 842 on July 1, 2022.

The Organization determines if an arrangement is or contains a lease at inception, which is the date on which the terms of the contract are agreed to, and the agreement creates enforceable rights and obligations. A contract is or contains a lease when (i) explicitly or implicitly identified assets have been deployed in the contract and (ii) The Organization obtains substantially all of the economic benefits from the use of that underlying asset and directs how and for what purpose the asset is used during the term of the contract. The Organization also considers whether its service arrangements include the right to control the use of an asset.

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 Organization made an accounting policy election available under Topic 842 not to recognize ROU assets and ROU lease liabilities for leases with a term of 12 months or less. For all other leases, ROU assets and ROU lease liabilities are measured based on the present value of future lease payments over the lease term at the commencement date of the lease (or July 1, 2022, for existing leases upon the adoption of Topic 842). The ROU assets also include any initial direct costs incurred and lease payments made at or before the commencement date and are reduced by any lease incentives. To determine the present value of lease payments, the Organization made an accounting policy election available to non-public companies to utilize a risk-free borrowing rate, which is aligned with the lease term at the lease commencement date (or remaining term for leases existing upon the adoption of Topic 842).

Future lease payments may include fixed rent escalation clauses or payments that depend on an index (such as the consumer price index), which is initially measured using the index or rate at lease commencement. Subsequent changes of an index and other periodic market-rate adjustments to base rent are recorded in variable lease expense in the period incurred. Residual value guarantees or payments for terminating the lease are included in the lease payments only when it is probable they will be incurred.

Adoption of Topic 842 resulted in the recording of ROU assets and ROU lease liabilities related to the Organization's operating leases of approximately \$7,200,000 on July 1, 2022. The adoption of the new lease standard did not materially impact consolidated net assets or consolidated cash flows and did not result in a cumulative-effect adjustment to the opening balance of net assets.

Recent accounting pronouncements: The FASB has issued certain new or modifications to, or interpretations of, existing accounting guidance. 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.

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 is 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 Children's Home Society of Florida and Subsidiaries

Notes to Consolidated Financial Statements

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

Subsequent events: CHS has evaluated subsequent events through December 15, 2023, the date on which 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, 2023 and 2022:

	2023	2022
Restricted for specified purposes:		
Beneficial interest in the net assets of The Children's Home Society of Florida Foundation, Inc.	\$ 18,955,872	\$ 16,468,790
Other	13,452	28,677
	<u>18,969,324</u>	<u>16,497,467</u>
Restricted in perpetuity:		
Beneficial interest in the net assets of The Children's Home Society of Florida Foundation, Inc.	9,097,106	9,088,223
	<u>9,097,106</u>	<u>9,088,223</u>
	<u>\$ 28,066,430</u>	<u>\$ 25,585,690</u>

As of June 30, 2023 and 2022, net assets of \$1,678,014 and \$1,504,154, respectively, were released from donor restrictions by incurring expenses satisfying the restricted purposes.

Note 3. Receivables

Receivables consisted of the following at June 30, 2023 and 2022:

	2023	2022
Community based care contracts	\$ 4,387,743	\$ 4,057,843
Other contracts	3,985,994	4,197,977
Government contracts	2,768,499	2,833,608
Medicaid	566,437	423,967
Pledges	528,126	612,449
	<u>12,236,799</u>	<u>12,125,844</u>
Less allowance for doubtful accounts	(2,155,711)	(803,575)
Less discount for time—value of money	(6,797)	(8,437)
	<u>\$ 10,074,291</u>	<u>\$ 11,313,832</u>

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, 2023 and 2022, and are summarized as follows:

	2023	2022
Amounts due:		
Within one year	\$ 386,362	\$ 344,698
One to five years	141,764	267,751
	528,126	612,449
Less allowance for doubtful accounts	(407,920)	(432,449)
Less discount for time—value of money	(6,797)	(8,437)
	<u>\$ 113,409</u>	<u>\$ 171,563</u>

Note 4. Investments

The fair value of investments at June 30, 2023 and 2022, consists of the following:

	2023	2022
Mutual funds:		
Large blend fund	\$ 6,472,727	\$ 5,887,610
Intermediate core-plus bond fund	2,953,234	2,297,084
Large growth fund	1,916,243	1,563,134
Small blend fund	1,573,853	1,209,584
Fixed income fund	1,091,879	460,067
Foreign large blend fund	620,257	507,817
Mid-cap blend fund	465,420	636,169
Foreign large growth fund	423,685	411,047
Large value fund	409,185	148,584
Long-short equity fund	378,004	-
Systematic trend fund	366,041	-
Convertibles fund	275,011	-
Preferred stock fund	267,762	-
Infrastructure fund	253,953	-
Miscellaneous sector fund	229,335	-
Relative value arbitrage fund	223,073	-
Foreign small/mid blend fund	218,483	112,412
Multistrategy fund	75,881	-
Multi-asset income fund	-	2,118,473
Real estate fund	-	574,928
Commodities focused fund	-	269,358
Real estate investment trust	607,561	695,120
	<u>\$ 18,821,587</u>	<u>\$ 16,891,387</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, 2023 and 2022:

	2023	2022
Land	\$ 534,729	\$ 1,334,729
Buildings and improvements	14,290,759	18,036,685
Furniture and equipment	13,248,622	13,247,995
Leasehold improvements	1,424,525	854,404
	<u>29,498,635</u>	<u>33,473,813</u>
Less accumulated depreciation	<u>(17,576,836)</u>	<u>(18,687,308)</u>
	<u>\$ 11,921,799</u>	<u>\$ 14,786,505</u>

Depreciation and amortization expense of property and equipment for the years ended June 30, 2023 and 2022, was approximately \$1,186,000 and \$1,464,000, respectively.

Note 6. Fair Value Measurements

The following tables represent CHS' financial assets measured at fair value on a recurring basis by level within the hierarchy at June 30, 2023 and 2022:

	2023			Total
	Fair Value Measurements Using			
	Level 1	Level 2	Level 3	
Investments:				
Mutual funds:				
Large blend fund	\$ 6,472,727	\$ -	\$ -	\$ 6,472,727
Intermediate core-plus bond fund	2,953,234	-	-	2,953,234
Large growth fund	1,916,243	-	-	1,916,243
Small blend fund	1,573,853	-	-	1,573,853
Fixed income fund	1,091,879	-	-	1,091,879
Foreign large blend fund	620,257	-	-	620,257
Mid-cap blend fund	465,420	-	-	465,420
Foreign large growth fund	423,685	-	-	423,685
Large value fund	409,185	-	-	409,185
Long-short equity fund	378,004	-	-	378,004
Systematic trend fund	366,041	-	-	366,041
Convertibles fund	275,011	-	-	275,011
Preferred stock fund	267,762	-	-	267,762
Infrastructure fund	253,953	-	-	253,953
Miscellaneous sector fund	229,335	-	-	229,335
Relative value arbitrage fund	223,073	-	-	223,073
Foreign small/mid blend fund	218,483	-	-	218,483
Multistrategy fund	75,881	-	-	75,881
Total investments in fair value hierarchy	<u>18,214,026</u>	<u>-</u>	<u>-</u>	<u>18,214,026</u>
Real estate investment trust measured at net asset value (a)	-	-	-	607,561
Total investments at fair value	<u>\$ 18,214,026</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 18,821,587</u>

The Children's Home Society of Florida and Subsidiaries

Notes to Consolidated Financial Statements

Note 6. Fair Value Measurements (Continued)

	2022			
	Fair Value Measurements Using			Total
	Level 1	Level 2	Level 3	
Investments:				
Mutual funds:				
Large blend fund	\$ 5,887,610	\$ -	\$ -	\$ 5,887,610
Intermediate core-plus bond fund	2,297,084	-	-	2,297,084
Multi-asset income fund	2,118,473	-	-	2,118,473
Large growth fund	1,563,134	-	-	1,563,134
Small blend fund	1,209,584	-	-	1,209,584
Mid-cap blend fund	636,169	-	-	636,169
Real estate fund	574,928	-	-	574,928
Foreign large blend fund	507,817	-	-	507,817
Fixed income fund	460,067	-	-	460,067
Foreign large growth fund	411,047	-	-	411,047
Commodities focused fund	269,358	-	-	269,358
Large value fund	148,584	-	-	148,584
Foreign small/mid blend fund	112,412	-	-	112,412
Total investments in fair value hierarchy	16,196,267	-	-	16,196,267
Real estate investment trust measured at net asset value (a)	-	-	-	695,120
Total investments at fair value	\$ 16,196,267	\$ -	\$ -	\$ 16,891,387

- (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 ARA Core Property 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, 2023 and 2022:

	June 30, 2023			
	Fair Value	Unfunded Commitment	Redemption Frequency	Redemption Notice Period
Real estate investment trust	\$ 607,561	\$ -	Daily	90 days

	June 30, 2022			
	Fair Value	Unfunded Commitment	Redemption Frequency	Redemption Notice Period
Real estate investment trust	\$ 695,120	\$ -	Daily	90 days

Note 7. Accrued Expenses

Accrued expenses consisted of the following at June 30, 2023 and 2022:

	2023	2022
Accrued salaries and benefits	\$ 2,364,932	\$ 2,918,345
Accrued vacation	1,946,996	1,844,653
Other	477,313	546,039
	<u>\$ 4,789,241</u>	<u>\$ 5,309,037</u>

The Children’s Home Society of Florida and Subsidiaries

Notes to Consolidated Financial Statements

Note 8. Debt and Line of Credit

Debt consisted of the following at June 30, 2023 and 2022:

	2023	2022
CHS has a \$9,200,000 revolving line of credit with a bank bearing interest at the Secured Overnight Financing Rate, adjusted monthly, plus 1.61% (6.74% at June 30, 2023). Interest on the line of credit is payable monthly and matures on March 31, 2025. The line of credit is collateralized by substantially all assets of CHS.	\$ 5,444,436	\$ 5,950,000
Note payable to a bank, due in monthly principal and interest payments of \$24,060. The note bore interest at a fixed interest rate of 4.70% and was repaid in December 2022. The note was collateralized by certain equipment.	-	142,574
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 county of Escambia, Florida, to finance construction of transitional housing for homeless pregnant women or women with children. The note was non-interest bearing, matured in January 2023, and was forgiven. 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 was collateralized by property in Pensacola, Florida.	-	120,000
	<u>\$ 6,434,046</u>	<u>\$ 7,202,184</u>

Maturities of debt as of June 30, 2023, are as follows:

Years ending June 30:	
2024	\$ 248,788
2025	6,185,258
	<u>\$ 6,434,046</u>

Under the terms of the line of credit agreement, CHS is required to maintain certain financial covenants relating to fixed charge coverage ratio and minimum unrestricted liquidity coverage. In June 2023, the line of credit agreement was amended, whereby, the fixed charge coverage ratio will not be evaluated until the quarter ending June 30, 2024, and thereafter. As of June 30, 2023, CHS was in compliance with the minimum unrestricted liquidity coverage.

The Children's Home Society of Florida and Subsidiaries

Notes to Consolidated Financial Statements

Note 9. Leases

The Organization determines if an arrangement is or contains a lease at inception, which is the date on which the terms of the contract are agreed to, and the agreement creates enforceable rights and obligations. Under Topic 842, a contract is or contains a lease when: (i) explicitly or implicitly identified assets have been deployed in the contract and (ii) the customer obtains substantially all of the economic benefits from the use of that underlying asset and directs how and for what purpose the asset is used during the term of the contract. The Organization also considers whether its service arrangements include the right to control the use of an asset.

The Organization has several leases for office space, equipment and vehicles from unrelated parties under operating lease agreements that have terms from transition to Topic 842 of 1 to 13.6 years. The Organization's leases do not contain any material restrictive covenants. Operating lease cost is recognized on a straight-line basis over the lease term.

Rent expense was approximately \$1,737,000 and \$1,725,000 for the years ended June 30, 2023 and 2022, respectively. Short-term lease expense is not material to the Organization's consolidated financial statements.

Weighted-average remaining lease term:

Operating leases	6.06 years
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Weighted-average discount rate:

Operating leases	2.88%
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Future undiscounted cash flow for each of the next five years and thereafter, and reconciliation to the lease liabilities recognized on the consolidated statements of financial position as of June 30, 2023, is as follows:

Years ending June 30:	
2024	\$ 1,569,984
2025	1,204,277
2026	913,443
2027	578,700
2028	400,374
Thereafter	<u>1,610,568</u>
Total minimum payments required	6,277,346
Less amounts representing interest	<u>(555,979)</u>
Present value of minimum lease payments	<u>\$ 5,721,367</u>

The Children's Home Society of Florida and Subsidiaries

Notes to Consolidated Financial Statements

Note 9. Leases (Continued)

Future minimum lease payments, as determined under Topic 840, for all operating leases as of June 30, 2022, are as follows:

Years ending June 30:	
2023	\$ 1,421,847
2024	1,172,674
2025	795,056
2026	609,000
2027	395,755
	<u>\$ 4,394,332</u>

Note 10. Commitments and Contingencies

CHS has 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 \$644,000 and \$1,115,000 at June 30, 2023 and 2022, respectively, and is included in accrued expenses in the accompanying consolidated statements of financial position.

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.

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 11. Liquidity and Availability of Resources

As of June 30, 2023 and 2022, 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, 2023 and 2022:

	<u>2023</u>	<u>2022</u>
Financial assets, at year-end		
Cash and cash equivalents	\$ 2,397,271	\$ 6,347,271
Receivables, net	10,074,291	11,313,832
Investments	18,821,587	16,891,387
Less those unavailable for general expenditures within one year, due to:		
Pledges receivable due in greater than one year, net	(39,026)	(111,563)
Contractual or donor-imposed restrictions:		
Restricted by donors with purpose restrictions	(13,452)	(28,677)
Financial assets available to meet cash needs for general expenditures within one year	<u>\$ 31,240,671</u>	<u>\$ 34,412,250</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 \$9,200,000 revolving line of credit (see Note 8).

Note 12. Retirement Plans

Certain employees of CHS participated in a noncontributory Annuity Benefit Retirement Plan (the Plan) administered by CHS. The Plan provided for defined benefits. Benefits were based on years of service and the employee's final average compensation as defined under the Plan. CHS' funding policy was to contribute annually, amounts based on the actuarial status of the Plan, but not less than that necessary to meet minimum regulatory funding standards. The Angell Pension Group, Inc. was 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, 2022, the Board of Directors approved a motion to terminate the Plan effective April 15, 2022, at which time, employees agreed to either a lump sum settlement benefit payment or the purchase of an annuity on their behalf. In June 2022, benefit payments were distributed, which resulted in a settlement expense of \$14,404,355 and lump sum settlement benefit payments of \$37,735,332. The remaining projected benefit obligation in the amount of \$112,042 as of June 30, 2022, represents run off activity. During the year ended June 30, 2023, the Plan made additional lump sum settlement benefit payments of \$855,802.

The Children's Home Society of Florida and Subsidiaries

Notes to Consolidated Financial Statements

Note 12. Retirement Plans (Continued)

The following tables provide a reconciliation of the changes in the Plan's benefit obligations and fair value of assets over the two-year period ended June 30, 2023, and a statement of the funded status as of June 30, 2023 and 2022:

	2023	2022
Accumulated benefit obligation at end of year	\$ -	\$ 112,042
Change in projected benefit obligation:		
Projected benefit obligation at beginning of year	\$ 112,042	\$ 36,813,880
Interest cost	-	964,679
Actuarial loss	-	744,292
Benefit payments	(112,042)	(675,477)
Lump sum settlement benefit payments	-	(37,735,332)
Projected benefit obligation at end of year	\$ -	\$ 112,042
Change in fair value of plan assets:		
Fair value of plan assets at beginning of year	\$ 967,844	\$ 28,827,704
Actual return on plan assets	-	(4,205,917)
Employer contributions	-	15,598,961
Expenses	-	(842,095)
Benefit payments	(112,042)	(675,477)
Additional lump sum settlement benefit payments	(855,802)	-
Lump sum settlement benefit payments	-	(37,735,332)
Fair value of plan assets at end of year	\$ -	\$ 967,844
Funded status at end of year	\$ -	\$ 855,802

Pension related changes other than net periodic benefit cost for the years ended June 30, 2023 and 2022, are as follows:

	2023	2022
Net actuarial loss	\$ -	\$ 7,327,780
Amortization of actuarial loss	-	(554,602)
Amount recognized due to settlement	-	(14,404,355)
Pension related changes other than net periodic benefit cost	\$ -	\$ (7,631,177)

The Children's Home Society of Florida and Subsidiaries

Notes to Consolidated Financial Statements

Note 12. Retirement Plans (Continued)

The tables below represent CHS' pension plan assets measured at fair value by level within the hierarchy (see Note 1) as of June 30, 2023 and 2022:

	2023			
	Fair Value Measurements Using			Total
	Level 1	Level 2	Level 3	
Money market funds	\$ -	\$ -	\$ -	\$ -

	2022			
	Fair Value Measurements Using			Total
	Level 1	Level 2	Level 3	
Money market funds	\$ 967,844	\$ -	\$ -	\$ 967,844

CHS' pension plan weighted-average asset allocations as of June 30, 2023 and 2022, by asset category are as follows:

	Percentage of Plan Assets at June 30,	
	2023	2022
Money market funds	0%	100%

The components of net periodic benefit cost for the Plan's fiscal years 2023 and 2022, are as follows:

	2023	2022
Interest cost	\$ -	\$ 964,679
Expected return on plan assets	-	(1,535,476)
Amortization of actuarial loss	-	554,602
Amount recognized due to settlement	-	14,404,355
Net periodic benefit cost	\$ -	\$ 14,388,160

The Children’s Home Society of Florida and Subsidiaries

Notes to Consolidated Financial Statements

Note 12. Retirement Plans (Continued)

The assumptions used in the measurement of CHS’ benefit obligation are shown below:

	2023	2022
Weighted-average assumptions as of June 30:		
Discount rate	N/A	4.45%
Expected return on plan assets	N/A	5.50%
Rate of compensation increase	N/A	N/A
	2023	2022
Alternative amortization methods used to amortize:		
Prior service cost	N/A	Straight-line
Unrecognized net (gain) or loss	N/A	Straight-line
Measurement date used	N/A	June 30, 2022

Mortality assumption: As of June 30, 2022, the assumed mortality rates were based upon the Pri-2012 Mortality Table projected fully generationally using the Scale MP-2021.

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 \$971,000 and \$959,000 for the years ended June 30, 2023 and 2022, respectively.

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, 2023 and 2022.

Note 13. In-Kind Contributions

In-kind contributions included in the consolidated statements of activities and functional expenses and the corresponding expenses are as follows:

	2023	2022
Contributed goods	\$ 1,398,772	\$ 993,099
Contributed classroom space	443,913	388,525
	<u>\$ 1,842,685</u>	<u>\$ 1,381,624</u>

Contributed goods was utilized in the following program and supporting services: child welfare solutions, behavioral health solutions, early childhood solutions, community solutions and fundraising. CHS estimated the fair value on the basis of estimates of wholesale values that would be received for selling similar products in the United States. The Organization utilizes donated goods for their mission and does not monetize or sell the goods.

The Children’s Home Society of Florida and Subsidiaries

Notes to Consolidated Financial Statements

Note 13. In-Kind Contributions (Continued)

Contributed classroom space was utilized in the community solutions program. CHS estimated the fair value on the basis of estimates of third-party appraisals.

Note 14. Beneficial Interest

Beneficial interest consisted of the following at June 30, 2023 and 2022:

	2023	2022
Beneficial interest in the net assets of The Children’s Home Society of Florida Foundation, Inc., reported on the equity method	<u>\$ 28,052,978</u>	<u>\$ 25,557,013</u>

At June 30, 2023 and 2022, CHS’s beneficial interest in the net assets of The Children’s Home Society of Florida Foundation, Inc. (Foundation) was \$28,052,978 and \$25,557,013, 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 \$3,765,131 and \$(3,627,662), net of distributions to CHS of \$1,278,049 and \$1,036,226, for the years ended June 30, 2023 and 2022, 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 \$8,883 and \$129,462 for the years ended June 30, 2023 and 2022, respectively, 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

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 (*Government Auditing Standards*), the consolidated financial statements of The Children's Home Society of Florida and its subsidiaries (the Organization), which comprise the consolidated statement of financial position as of June 30, 2023, 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 (collectively, the financial statements), and have issued our report thereon dated December 15, 2023.

Report on Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Organization's internal control over financial reporting (internal control) as a basis for designing audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Organization's internal control. Accordingly, we do not express an opinion on the effectiveness of the Organization'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.

Report on Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Organization's 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 financial statements. 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 Organization'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 Organization's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

RSM US LLP

Orlando, Florida
December 15, 2023