



Financial Statement

June 30, 2013

The first name in second chances.SM

Eckerd

ECKERD
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Carr, Riggs & Ingram, LLC
2111 Drew Street
Clearwater, FL 33765

(727) 446-0504
(727) 461-7384 (fax)
www.cricpa.com

INDEPENDENT AUDITOR'S REPORT

To the Board of Directors of
Eckerd Youth Alternatives, Inc. ("Eckerd")

Report on the Financial Statements

We have audited the accompanying financial statements of Eckerd (a nonprofit organization), which comprise the statements of financial position as June 30, 2013 and 2012, and the related statements of revenues, expenses, and other changes in net assets, cash flows and functional expenses for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these 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 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 financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the 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 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 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 financial statements referred to above present fairly, in all material respects, the financial position of Eckerd as of June 30, 2013 and 2012, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Carr, Riggs & Ingram, LLC

CARR, RIGGS & INGRAM, LLC
October 3, 2013

ECKERD
STATEMENT OF FINANCIAL POSITION

June 30, 2013 and 2012

	June 30, 2013			Total
	Unrestricted	Temporarily Restricted	Permanently Restricted	
Assets:				
Cash and cash equivalents	\$8,772,745	\$662,117	\$ -	\$9,434,862
Restricted cash	997,416	-	-	997,416
Contracts receivable	4,991,504	-	-	4,991,504
Other receivables	413,653	-	-	413,653
Contributions receivable	-	424,936	-	424,936
Prepaid expenses	891,200	-	-	891,200
Deposits	356,480	-	-	356,480
Investments	2,584,726	-	-	2,584,726
Mortgage receivable	1,112,107	-	-	1,112,107
Property and equipment (net)	8,789,241	-	-	8,789,241
Beneficial interest in perpetual trust	-	-	21,023,273	21,023,273
Total assets	\$28,909,072	\$1,087,053	\$21,023,273	\$51,019,398
Liabilities and net assets:				
Liabilities:				
Accounts payable	\$4,468,087	\$ -	\$ -	\$4,468,087
Accrued expenses	4,274,571	-	-	4,274,571
Lease payable	92,987	-	-	92,987
Accrued pension - defined contribution	605,303	-	-	605,303
Deferred revenue	871,727	-	-	871,727
Accrued pension - deferred compensation	165,851	-	-	165,851
Accrued pension - defined benefit	-	-	-	0
Total liabilities	10,478,526	-	-	10,478,526
Net assets:				
Unrestricted				
Undesignated	15,571,218	-	-	15,571,218
Designated	2,859,328	-	-	2,859,328
Temporarily restricted	-	1,087,053	-	1,087,053
Permanently restricted	-	-	21,023,273	21,023,273
Total net assets	18,430,546	1,087,053	21,023,273	40,540,872
Total liabilities and net assets	\$28,909,072	\$1,087,053	\$21,023,273	\$51,019,398

June 30, 2012

Unrestricted	Temporarily Restricted	Permanently Restricted	Total
\$9,537,769	\$760,006	\$ -	\$10,297,775
896,381	-	-	896,381
1,996,633	-	-	1,996,633
339,235	-	-	339,235
-	535,953	-	535,953
874,681	-	-	874,681
314,897	-	-	314,897
7,695,914	-	-	7,695,914
1,149,147	-	-	1,149,147
9,032,302	-	-	9,032,302
-	-	19,451,064	19,451,064
<u>\$31,836,959</u>	<u>\$1,295,959</u>	<u>\$19,451,064</u>	<u>\$52,583,982</u>
\$3,770,981	\$ -	\$ -	\$3,770,981
3,416,005	-	-	3,416,005
171,702	-	-	171,702
577,176	-	-	577,176
381,400	-	-	381,400
-	-	-	-
5,450,107	-	-	5,450,107
<u>13,767,371</u>	<u>-</u>	<u>-</u>	<u>13,767,371</u>
9,164,272	-	-	9,164,272
8,905,316	-	-	8,905,316
-	1,295,959	-	1,295,959
-	-	19,451,064	19,451,064
<u>18,069,588</u>	<u>1,295,959</u>	<u>19,451,064</u>	<u>38,816,611</u>
<u>\$31,836,959</u>	<u>\$1,295,959</u>	<u>\$19,451,064</u>	<u>\$52,583,982</u>

ECKERD
STATEMENT OF REVENUES, EXPENSES AND
OTHER CHANGES IN NET ASSETS

Years ended June 30, 2013 and 2012

	Year Ended June 30, 2013			Total
	Unrestricted	Temporarily Restricted	Permanently Restricted	
Revenues and gains:				
Client	\$148,673,488	\$ -	\$ -	\$148,673,488
Other program	697,651	-	-	697,651
Contributions	811,225	2,310,867	-	3,122,092
Interest and dividends net of investment fees	90,667	-	-	90,667
Interest income	44,677	-	-	44,677
Other revenue	114,704	-	-	114,704
Total revenues and gains	<u>150,432,412</u>	<u>2,310,867</u>	<u>-</u>	<u>152,743,279</u>
Net assets released from restrictions for operations:				
Satisfaction of donor restrictions	2,519,773	(2,519,773)	-	-
Total net assets released from restrictions for operations	<u>2,519,773</u>	<u>(2,519,773)</u>	<u>-</u>	<u>-</u>
Total revenues and gains	<u>152,952,185</u>	<u>(208,906)</u>	<u>-</u>	<u>152,743,279</u>
Expenses and losses:				
Operating	148,508,235	-	-	148,508,235
Other	3,211,969	-	-	3,211,969
Total expenses and losses	<u>151,720,204</u>	<u>-</u>	<u>-</u>	<u>151,720,204</u>
(Decrease)/Increase in net assets from operations	<u>1,231,981</u>	<u>(208,906)</u>	<u>-</u>	<u>1,023,075</u>
Non-operating activity:				
Gain (Loss) on sale of assets	79,574	-	-	79,574
Investment gain	483,345	-	-	483,345
Change in value of beneficial interest in perpetual trust	-	-	1,572,209	1,572,209
Total non-operating activity	<u>562,919</u>	<u>-</u>	<u>1,572,209</u>	<u>2,135,128</u>
(Decrease)/Increase in net assets before change in prepaid pension benefit	<u>1,794,900</u>	<u>(208,906)</u>	<u>1,572,209</u>	<u>3,158,203</u>
Change in prepaid pension benefit:				
Change in liability for pension benefits	(717,261)	-	-	(717,261)
Pension related changes other than net periodic pension costs	(716,681)	-	-	(716,681)
Total change in prepaid pension benefit	<u>(1,433,942)</u>	<u>-</u>	<u>-</u>	<u>(1,433,942)</u>
(Decrease)/Increase in net assets	<u>360,958</u>	<u>(208,906)</u>	<u>1,572,209</u>	<u>1,724,261</u>
Net assets at beginning of year	<u>18,069,588</u>	<u>1,295,959</u>	<u>19,451,064</u>	<u>38,816,611</u>
Net assets at end of year	<u>\$18,430,546</u>	<u>\$1,087,053</u>	<u>\$21,023,273</u>	<u>\$40,540,872</u>

Unrestricted	Year Ended June 30, 2012		Total
	Temporarily Restricted	Permanently Restricted	
\$85,869,318	\$ -	\$ -	\$85,869,318
853,398	-	-	853,398
763,584	2,560,018	-	3,323,602
136,254	-	-	136,254
51,524	-	-	51,524
463,765	-	-	463,765
<u>88,137,843</u>	<u>2,560,018</u>	<u>-</u>	<u>90,697,861</u>
<u>2,035,333</u>	<u>(2,035,333)</u>	<u>-</u>	<u>-</u>
<u>2,035,333</u>	<u>(2,035,333)</u>	<u>-</u>	<u>-</u>
<u>90,173,176</u>	<u>524,685</u>	<u>-</u>	<u>90,697,861</u>
89,019,262	-	-	89,019,262
3,625,329	-	-	3,625,329
<u>92,644,591</u>	<u>-</u>	<u>-</u>	<u>92,644,591</u>
<u>(2,471,415)</u>	<u>524,685</u>	<u>-</u>	<u>(1,946,730)</u>
(792,309)	-	-	(792,309)
59,881	-	-	59,881
-	-	(881,564)	(881,564)
<u>(732,428)</u>	<u>-</u>	<u>(881,564)</u>	<u>(1,613,992)</u>
<u>(3,203,843)</u>	<u>524,685</u>	<u>(881,564)</u>	<u>(3,560,722)</u>
(502,518)	-	-	(502,518)
<u>(1,749,747)</u>	<u>-</u>	<u>-</u>	<u>(1,749,747)</u>
<u>(2,252,265)</u>	<u>-</u>	<u>-</u>	<u>(2,252,265)</u>
(5,456,108)	524,685	(881,564)	(5,812,987)
23,525,696	771,274	20,332,628	44,629,598
<u>\$18,069,588</u>	<u>\$1,295,959</u>	<u>\$19,451,064</u>	<u>\$38,816,611</u>

ECKERD
STATEMENT OF CASH FLOWS

Years ended June 30, 2013 and 2012

	Year Ended June 30, 2013	Year Ended June 30, 2012
Cash flows from operating activities:		
Increase/(decrease) in net assets	1,724,261	(5,812,987)
Adjustments to reconcile increase in net assets to net cash provided by operating activities:		
Depreciation	1,104,033	1,321,870
Bad Debt Expense	4,137	121,327
Unrealized (gain)/loss on investments	(371,708)	206,306
Loss on sale and retirement of fixed assets	50,024	894,914
Change in value of beneficial interest in perpetual trust	(1,572,209)	881,564
(Increase) decrease in assets:		
Receivables	(2,962,409)	2,111,585
Prepaid expenses	(16,519)	39,943
Deposits	(41,583)	(77,869)
Increase (decrease) in liabilities:		
Accounts payable	697,106	1,059,710
Accrued expenses	858,566	423,117
Accrued pension - defined contribution	28,127	127,028
Deferred revenue	490,327	(1,275,146)
Accrued pension - deferred compensation	165,851	0
Accrued pension - defined benefit	(5,450,107)	2,252,265
Net cash provided/(used) by operating activities	(5,292,103)	2,273,627
Cash flows from investing activities:		
Purchase of property and equipment	(979,698)	(1,803,481)
Proceeds from disposal of property and equipment	68,702	1,153,443
Proceeds from mortgage receivable	37,040	40,083
Purchase of investments	(4,871,312)	(6,901,143)
Proceeds from disposal of investments	10,354,208	5,032,927
Net cash provided/(used) by investing activities	4,608,940	(2,478,171)
Cash flows from financing activities:		
Payments on capital lease obligation	(78,715)	(132,659)
Cash flows used by financing activities:	(78,715)	(132,659)
Net decrease in cash, cash equivalents and restricted cash	(761,878)	(337,203)
Cash, cash equivalents and restricted cash, beginning of year	11,194,156	11,531,359
Cash, cash equivalents and restricted cash, end of year	\$10,432,278	\$11,194,156
Supplemental Schedule of Noncash Investing Activities:		
Assets acquired under capital lease	\$ -	\$ 42,305

ECKERD
STATEMENT OF FUNCTIONAL EXPENSES

Years ended June 30, 2013 and 2012

	Year Ended June 30, 2013				
	Residential Programs	Non-Residential Programs	Lead Agency	Central Services	Total
Operating expenses:					
Payroll and related expenses:					
Salaries and wages	\$ 4,561,303	\$ 5,658,791	\$ 6,535,494	\$ 5,350,191	\$ 22,105,779
Payroll taxes	400,803	493,648	576,700	441,312	1,912,463
Worker's compensation	226,439	222,021	89,657	70,116	608,233
Pension	110,310	135,988	157,278	289,418	692,994
Health insurance	816,030	846,548	868,940	328,757	2,860,275
Total payroll and related expenses	6,114,885	7,356,996	8,228,069	6,479,794	28,179,744
Employee related	86,722	113,778	73,278	148,770	422,548
Supplies & materials	252,257	126,750	190,874	152,977	722,858
Food	380,017	23,559	-	(851)	402,725
Travel	73,212	658,336	177,369	400,801	1,309,718
Repairs and maintenance	150,314	34,302	167,772	217,120	569,508
Utilities	315,608	28,140	90,266	65,008	499,022
Telephone	113,344	249,432	547,458	243,857	1,154,091
Depreciation	456,643	73,227	39,979	398,238	968,087
Insurance	401,223	428,816	499,087	403,229	1,732,355
Professional fees	110,695	92,657	133,475	805,186	1,142,013
Rent	99,475	563,323	2,032,450	148,827	2,844,075
Purchased services	-	35,978	104,692,104	-	104,728,082
Client related	107,499	89,117	3,299,641	437	3,496,694
Miscellaneous	(241,801)	(13,204)	645,758	(54,038)	336,715
Total operating expenses	8,420,093	9,861,207	120,817,580	9,409,355	148,508,235
Central service allocation	1,820,834	2,072,227	5,516,294	(9,409,355)	-
Total expenses	\$ 10,240,927	\$ 11,933,434	\$ 126,333,874	\$ -	\$ 148,508,235

Year Ended June 30, 2012

Residential Programs	Non-Residential Programs	Lead Agency	Central Services	Total
\$ 6,492,284	\$ 6,890,259	\$ 3,148,964	\$ 4,567,135	\$ 21,098,642
572,186	607,696	276,775	369,446	1,826,103
405,397	274,485	86,788	129,908	896,578
188,251	190,145	81,775	120,612	580,783
1,184,602	1,061,260	501,463	360,903	3,108,228
8,842,720	9,023,845	4,095,765	5,548,004	27,510,334
113,795	155,421	40,715	134,891	444,822
518,623	173,305	99,077	152,608	943,613
508,000	40,799	-	349	549,148
196,914	886,242	159,263	436,705	1,679,124
250,913	76,239	20,832	184,865	532,849
462,188	53,815	7,752	69,898	593,653
161,995	271,479	228,664	210,440	872,578
579,485	84,453	85,195	360,827	1,109,960
569,278	406,882	204,175	388,821	1,569,156
196,083	561,778	51,694	691,511	1,501,066
190,855	598,358	1,263,710	127,876	2,180,799
-	2,897	46,674,949	-	46,677,846
116,508	130,012	1,754,720	1,853	2,003,093
(14,411)	103,313	400,461	361,858	851,221
12,692,946	12,568,838	55,086,972	8,670,506	89,019,262
3,226,764	2,309,976	3,133,766	(8,670,506)	-
<u>\$ 15,919,710</u>	<u>\$ 14,878,814</u>	<u>\$ 58,220,738</u>	<u>\$ -</u>	<u>\$ 89,019,262</u>

ECKERD
NOTES TO FINANCIAL STATEMENTS
June 30, 2013 and 2012

1. Organization and Nature of Activities

Eckerd is a national nonprofit organization that has given second chances to more than 100,000 children and families since 1968. Eckerd currently serves more than 13,000 children and families annually through a complete continuum of more than 30 life-changing behavioral health and child welfare services in seven states – Florida, Iowa, Louisiana, North Carolina, Texas, Oklahoma and Vermont. In addition, Eckerd is also an experienced partner in helping states manage and transform publicly funded systems of care. The primary sources of revenue are contracts with the various state agencies. These contracts contain state and federal funding sources.

Eckerd's services strengthen children, families and communities. Eckerd is known as the first name in second chances because of the 45 year history of success, unmatched breadth and depth of services and Eckerd's commitment to performance measurement and quality outcomes. Eckerd's vision is to ensure every child has an opportunity to succeed.

Eckerd Youth Alternatives, Inc. is the registered legal name with the State of Florida. However, the organization began doing business (dba) as Eckerd in April 2011. For more information about Eckerd, please visit www.Eckerd.org.

2. Summary of Significant Accounting Policies

Basis of Presentation – The accompanying financial statements have been prepared on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America. Net assets and revenues, expenses, gains and losses are classified based on the existence or absence of donor-imposed restrictions. Accordingly, net assets of Eckerd and changes therein are classified and reported as follows:

Unrestricted Net Assets – Net assets that are not subject to donor-imposed stipulations. Board imposed restrictions are classified as designated.

Temporarily Restricted Net Assets – Net assets subject to donor-imposed stipulations that may or will be met, either by actions of Eckerd and/or the passage of time. When a restriction expires, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of revenues, expenses and other changes in net assets as net assets released from restrictions.

Permanently Restricted Net Assets – Net assets subject to donor-imposed stipulations where the principal contribution must remain intact.

ECKERD
NOTES TO FINANCIAL STATEMENTS
June 30, 2013 and 2012

2. Summary of Significant Accounting Policies (continued)

Depreciation - Property and equipment is recorded at cost and is depreciated by the straight-line method over the estimated useful lives of such assets. All property and equipment over \$1,000 are capitalized.

Investments – Investments in equity securities with readily determinable fair values and all investments in debt securities are measured at fair value based on quoted market prices. Gains and losses on market value adjustments are recognized as the market fluctuates.

Contributed Property, Equipment and Supplies - Contributed property and equipment is recorded at fair value at the date of donation. If donors stipulate how the assets must be used, the contributions are recorded as restricted support. In the absence of such stipulations, contributions of property and equipment are recorded as unrestricted support. Such contributions are classified as revenue.

Eckerd also receives food commodities and certain supplies for use in its programs. These amounts are recorded at fair market value in the financial statements as other contract revenues and expenses for the applicable facility.

Allocation of Central Service Costs - Central service expenses include general and administrative expenses. For the years ended June 30, 2013 and 2012, these expenses are allocated to the various programs based on the most appropriate cost basis of each overhead department.

Cash and Cash Equivalents - For purposes of the statements of cash flows, Eckerd considers all unrestricted highly liquid debt instruments purchased with a maturity of three months or less to be cash equivalents.

Estimates - The preparation of financial statements in conformity with generally accepted accounting principles 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.

Restricted Cash - Restricted cash represents funds held for the benefit of Eckerd Community Alternative clients and Eckerd Community Alternative contributions as required by these contracts.

Advertising – Advertising expenses are expensed as incurred.

Fundraising - Fundraising expenses for the years ended June 30, 2013 and 2012 were \$510,812 and \$436,836, respectively, and included in other expense.

ECKERD
NOTES TO FINANCIAL STATEMENTS
June 30, 2013 and 2012

2. Summary of Significant Accounting Policies (continued)

Short Term Borrowing

Eckerd borrowed \$800,000 for the payments related to the termination of the defined benefit pension plan. During 2013, \$420,000 of the loan was repaid leaving an outstanding balance at June 30, 2013 of \$380,000 which was included in accounts payable. This was repaid as of July 1, 2013.

Management's Review

Management has evaluated events and transactions for potential recognition or disclosure through October 3, 2013, which is the date the financial statements were available to be issued.

Income Tax - Under Financial Accounting Standards Board's (the "FASB") Accounting Standards Codification 740, an entity's income tax returns are subject to examination by the applicable taxing authorities. The time period during which a return may be selected by a taxing authority for examination generally ends at the later of three years after the initial due date of the return or three years after the return is filed. At June 30, 2013, the Company's tax years that remain subject to examination are 2012, 2011, and 2010.

3. Contribution Receivable

Future amounts of contribution receivable at June 30, 2013 and 2012 are estimated as follows:

	<u>2013</u>	<u>2012</u>
Contribution Receivable	<u>\$ 424,936</u>	<u>\$535,953</u>

Contribution receivable consist of promises from a private foundation. The contribution receivable is primarily short term (less than one year). Therefore, no discount has been considered. Management has deemed no allowance is necessary on these receivables as of June 30, 2013 and 2012.

ECKERD
NOTES TO FINANCIAL STATEMENTS
June 30, 2013 and 2012

4. Investments

Investments are recorded at market value and are summarized as follows:

	<u>2013</u>		<u>2012</u>	
	Cost	Market	Cost	Market
Corporate Bonds	\$1,014,550	\$999,876	\$3,488,130	\$3,578,043
Equity Securities	<u>1,389,535</u>	<u>1,584,850</u>	<u>3,838,534</u>	<u>4,117,871</u>
	<u>\$2,404,085</u>	<u>\$2,584,726</u>	<u>\$7,326,664</u>	<u>\$7,695,914</u>

Investment income from these investments for the years ended June 30, 2013 and 2012 are summarized as follows:

	<u>2013</u>	<u>2012</u>
Interest and Dividends	\$139,779	\$353,787
Investment Fees	(49,112)	(217,533)
Net Realized and Unrealized Gains	<u>483,345</u>	<u>59,881</u>
	<u>\$574,012</u>	<u>\$196,135</u>

The interest and dividends net of investment fees is included in the operating section of the statement of revenues, expenses and changes in net assets since it is used in the daily operations of Eckerd. The net realized and unrealized gain is included in the non-operating section since it is not utilized in operations.

5. Fair Value Measurement

ASC 820, Fair Value Measurements, establishes a framework for measuring fair value. That framework provides a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy give the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurements) and the lowest priority to unobservable inputs (Level 3 measurements). The three levels of the fair value hierarchy under ASC 820 are described as follows:

Level 1 – Inputs to the valuation methodology are unadjusted quoted prices in active markets for identical assets.

Level 2 – Inputs other than quoted prices within Level 1 that are observable for the asset, either directly or indirectly.

Level 3 – Inputs to the valuation methodology are unobservable and significant to the fair value measurement.

ECKERD
NOTES TO FINANCIAL STATEMENTS
June 30, 2013 and 2012

5. Fair Value Measurement (continued)

The asset or liability's fair value measurement level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. Valuation techniques used need to maximize the use of observable inputs and minimize the use of unobservable inputs. The following is a description of the valuation methodologies used for assets measured at fair value. There have been no changes in the methodology used at June 30, 2013 and 2012.

Equities: Comprised of common stock valued at the closing price reported in the active market in which the individual securities are traded.

Fixed income funds: Valued at the net asset value (NAV) of shares held by the plan at year end.

Beneficial interest in perpetual trust: The fair value of the perpetual trust is measured using the fair value of the assets contributed to the trust. The assets held by the trust are comprised of a diverse group of marketable securities that are priced based on the closing price reported in the active market in which the individual securities are traded. In determining the reasonableness of the methodology, management engages a third party administrator to review terms and industry and market developments. Management reviews the investment terms, valuation, and performance annually.

The preceding methods described may produce a fair value calculation that may not be indicative of net realizable value or reflective of future fair values. Furthermore, although management believes its valuation methods are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different fair value measurement at the reporting date.

The following table sets forth by level, the fair value hierarchy, of investments at fair value:

ECKERD
NOTES TO FINANCIAL STATEMENTS
June 30, 2013 and 2012

5. Fair Value Measurement (continued)

The following table sets forth by level, the fair value hierarchy, of investments at fair value:

<u>Investments</u>	<u>2013</u>			
	Assets Measured at <u>Fair Value</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>
Equities				
Health Care	\$196,221	\$196,221	\$ -	\$ -
Consumer Staples	106,362	106,362	-	-
Information Technology	240,796	240,796	-	-
Consumer Discretionary	206,208	206,208	-	-
Industrials	179,261	179,261	-	-
Materials	74,552	74,552	-	-
Financials	390,841	390,841	-	-
Telecommunication	12,683	12,683	-	-
Utilities	861	861	-	-
Energy	177,065	177,065	-	-
Fixed Income				
Long Term Bond	194,044	194,044	-	-
Intermediate Term Bond	274,703	274,703	-	-
Short Term Bond	531,129	531,129	-	-
Subtotal	<u>2,584,726</u>	<u>2,584,726</u>	-	-
Beneficial Interest in Perpetual Trust	<u>21,023,273</u>	-	-	<u>21,023,273</u>
Grand Total	<u>\$23,607,999</u>	<u>\$2,584,726</u>	<u>\$ -</u>	<u>\$21,023,273</u>

ECKERD
NOTES TO FINANCIAL STATEMENTS
June 30, 2013 and 2012

5. Fair Value Measurement (continued)

<u>Investments</u>	<u>2012</u>			
	<u>Assets Measured at Fair Value</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>
Equities				
Health Care	\$526,876	\$526,876	\$ -	\$ -
Consumer Staples	381,395	381,395	-	-
Technology	699,468	699,468	-	-
Consumer Discretionary	529,202	529,202	-	-
Industrials	592,486	592,486	-	-
Materials	167,177	167,177	-	-
Financials	585,703	585,703	-	-
Telecommunication	193,731	193,731	-	-
Utilities	14,089	14,089	-	-
Energy	426,862	426,862	-	-
Fixed Income				
Long Term Bond	712,845	712,845	-	-
Intermediate Term Bond	1,088,375	1,088,375	-	-
Short Term Bond	1,777,705	1,777,705	-	-
Subtotal	<u>7,695,914</u>	<u>7,695,914</u>	-	-
Beneficial Interest in Perpetual Trust *	<u>19,451,064</u>	<u>-</u>	<u>-</u>	<u>19,451,064</u>
Grand Total	<u>\$27,146,978</u>	<u>\$7,695,914</u>	<u>\$ -</u>	<u>\$19,451,064</u>

* 2012 beneficial interest in perpetual trust assets have been reclassified to level 3.

The following provides further details of the Level 3 fair value measurement for the years ended June 30, 2013 and 2012:

	<u>2013</u>	<u>2012</u>
Beginning balance	\$19,451,064	\$20,332,628
Investment income	652,380	550,855
Payments	(1,116,218)	(182,340)
Unrealized gain (loss)	<u>2,036,047</u>	<u>(1,250,079)</u>
Ending balance	<u>\$21,023,273</u>	<u>\$19,451,064</u>

ECKERD
NOTES TO FINANCIAL STATEMENTS
June 30, 2013 and 2012

5. Fair Value Measurement (continued)

As noted, the Organization has a beneficiary interest in a perpetual trust. In determining the reasonableness of the methodology and selection of investments, management relies a third party administrator for the selection and management of the investments held. The third party administrator reviews the investment terms and industry and market developments. Management is responsible for the valuation of the investments held. Gains and losses (realized and unrealized) are included in changes in the Statement of Revenues and Expenses and other changes in net assets for the year ended June 30, 2013 and 2012.

6. Property and Equipment

Property and equipment at June 30, 2013 and 2012 are summarized as follows:

	Estimated <u>Life</u>	<u>2013</u>	<u>2012</u>
Land		\$ 2,044,840	\$ 2,044,840
Buildings and improvements	10-20 years	14,999,585	14,413,354
Furniture and equipment	5 years	5,566,625	5,362,887
Transportation equipment	3-10 years	908,352	1,121,377
Construction in progress		<u>340,310</u>	<u>529,136</u>
<i>Total</i>		23,859,712	23,471,594
Less accumulated depreciation		<u>(15,070,471)</u>	<u>(14,439,292)</u>
Net property and equipment		<u>\$ 8,789,241</u>	<u>\$9,032,302</u>

ECKERD
NOTES TO FINANCIAL STATEMENTS
June 30, 2013 and 2012

7. Beneficial Interest in Perpetual Trust Held by Third Party

Eckerd is an income beneficiary in two separate perpetual trusts held by third parties, which is measured based on the fair value of the assets. The change in the fair value of the trust assets is reported as permanently restricted gains or losses. Income distributions from the trust are reported as unrestricted contributions.

8. Net Assets

Unrestricted Designated Net Assets

Unrestricted designated net assets as of June 30, 2013 and 2012 consist of the following:

	<u>2013</u>	<u>2012</u>
Endowment designated for future use	\$2,859,328	\$8,905,316

Temporarily Restricted Net Assets

Temporarily restricted net assets as of June 30, 2013 and 2012 consist of the following:

	<u>2013</u>	<u>2012</u>
Donor Restricted for Purpose:		
Scholarship	\$141,880	\$140,985
Program/Staff Growth and Transformation	76,195	237,250
Resource Room	142,334	101,551
Program Activities	302,408	280,560
Restricted for Time	<u>424,236</u>	<u>535,613</u>
	<u>\$1,087,053</u>	<u>\$1,295,959</u>

Permanently Restricted Net Assets

Permanently restricted net assets consist of two perpetual trusts held by third parties. Eckerd is an income beneficiary on these trusts. The balances at June 30, 2013 and 2012 consists of the following:

	<u>2013</u>	<u>2012</u>
National Foundation for Youth	\$19,408,451	\$17,912,033
Richard J. Ross Trust	<u>1,614,822</u>	<u>1,539,031</u>
	<u>\$21,023,273</u>	<u>\$19,451,064</u>

ECKERD
NOTES TO FINANCIAL STATEMENTS
June 30, 2013 and 2012

9. Employee Benefit Plans

Tax Deferred Annuity Program - Eckerd offers a 403(b) tax deferred annuity program to its employees. The program began in 1985 and participation is voluntary. Eckerd makes no contributions to this program.

Flexible Spending Plan - Effective January 1, 1993, Eckerd amended and restated its flexible spending plan which qualified as a cafeteria plan under Section 125 of the Internal Revenue Code. This plan is comprised of four different plans, the Eckerd Youth Alternatives, Inc. Flexible Spending Plan, the Eckerd Youth Alternatives, Inc. Health Care Reimbursement Plan, the Eckerd Youth Alternatives, Inc. Dependent Care Assistance Plan and the Eckerd Youth Alternatives, Inc. Cafeteria Plan. This Flexible Spending Plan is an unfunded plan with no responsibility for the payment of such benefits by Eckerd Youth Alternatives, Inc.

Defined Contribution Benefit Plans - On July 1, 1993, Eckerd adopted a defined contribution pension plan covering substantially all full-time employees. Employer contributions are made at the rate of 5% of eligible employees' compensation. Contributions for this plan for 2013 and 2012 were \$605,303, and \$577,176, respectively.

Deferred Compensation Plan - Effective July 1, 2009, Eckerd established a supplemental executive retirement plan to retain and reward selected executives of the Company and to provide such executives with supplemental benefits. The plan is an unfunded plan established and maintained for the primary purpose of providing deferred compensation benefits for employees who substantially contribute to the success of the Organization. The plan is a nonqualified deferred compensation plan that is intended to comply with Sections 457(f) and 409A of the Internal Revenue Code.

Defined Benefit Plan - Eckerd has a noncontributory defined benefit pension plan covering substantially all full-time employees who were hired before October 14, 1986. Contributions for this plan for 2013 and 2012 were \$6,858,979 and \$0, respectively.

Eckerd has adopted the provisions of ASC 715, "Compensation Retirement Benefits".

The Board of Directors approved termination of the defined benefit plan effective August 1, 2012. For participants already receiving a benefit payment, Eckerd purchased annuities to continue this benefit payment. Participants not already receiving a benefit payment were given the choice to receive a lump sum payment (either direct roll over or distribution) or have an annuity purchased. Eckerd contributed \$6,858,979 to settle the liability of the plan termination. The termination was complete in June 2013 and resulted in expense of approximately \$717,000.

ECKERD
NOTES TO FINANCIAL STATEMENTS
June 30, 2013 and 2012

9. Employee Benefit Plans (continued)

Benefits of the defined benefit pension plan were based on the greater of the following three calculations reduced by the actuarial equivalent of the accumulated account balance in the defined contribution plan:

- 1.2% of average compensation up to \$15,000 plus 1.8% of average compensation in excess of \$15,000 multiplied by years of service (maximum of 30 years).
- 40% of average compensation multiplied by years of benefit service divided by 15 (if participant's years of benefit service are less than 15) or by 1 (if participant has 15 or more years of benefit service).
- The vested benefit accrued under this Plan prior to the Plan amendment to benefits made on July 1, 1989.

Eckerd's funding policy is to contribute an amount between the actuarially determined minimum and maximum funding requirements (annual normal cost plus amortization of actuarial liabilities over 30 years) using the Projected Unit Credit Cost Method, which is required under ASC 715, "Compensation Retirement Benefits".

The following tables provide a reconciliation of the changes in the plans' benefit obligations and fair value of assets for the years ended June 30, 2013 and 2012 and a statement of the funded status as of June 30, 2013 and 2012:

	<u>2013</u>	<u>2012</u>
<i>Funded Status at Year End</i>		
Projected benefit obligation	\$0	\$(11,453,820)
Fair value of plan assets	<u>0</u>	<u>6,003,713</u>
Funded status	<u>\$0</u>	<u>\$(5,450,107)</u>
<i>Reconciliation of Projected Benefit Obligation</i>		
Obligation at beginning of year	\$ 11,453,820	\$9,840,580
Service cost	7,782	5,136
Interest cost	446,244	502,078
Actuarial (gain) loss	1,179,296	1,794,757
Benefit payments	(348,865)	(688,731)
Settlements	<u>(12,738,277)</u>	<u>0</u>
Obligation at end of year	<u>\$ 0</u>	<u>\$11,453,820</u>
<i>Reconciliation of Fair Value of Plan Assets</i>		
Fair value of plan assets at beginning of year	\$6,003,713	\$6,642,738
Actual return on plan assets	199,378	49,706
Benefit payments and expenses	(348,865)	(688,731)
Employer contributions	6,858,979	0
Settlements	(12,738,277)	0
Adjustments	<u>25,072</u>	<u>0</u>
Fair value of plan assets at end of year	<u>\$0</u>	<u>\$6,003,713</u>

ECKERD
NOTES TO FINANCIAL STATEMENTS
June 30, 2013 and 2012

9. Employee Benefit Plans (continued)

	<u>2013</u>	<u>2012</u>
<i>Items not yet Recognized as a Component of Net Periodic Pension Cost</i>		
Unrecognized loss	<u>\$0</u>	<u>\$6,618,827</u>
<i>Accumulated benefit obligation at end of year</i>	<u>\$0</u>	<u>\$11,710,248</u>

The following table provides the amounts recognized in the statement of financial position as of June 30, 2013 and 2012:

	<u>2013</u>	<u>2012</u>
Accrued Pension	<u>\$0</u>	<u>\$5,450,107</u>

The following table provides the components of net periodic benefit cost for the plan for the fiscal years 2013 and 2012:

	<u>2013</u>	<u>2012</u>
Service cost	\$ 7,782	\$ 5,136
Interest cost	446,244	502,078
Expected return on plan assets	(199,378)	(49,706)
Amortization of net (gain) or loss	<u>462,613</u>	<u>45,010</u>
Net periodic benefit cost	<u>\$ 717,261</u>	<u>\$ 502,518</u>

The amount included arising from a change in the pension asset was \$717,261 and \$502,518 at June 30, 2013 and 2012, respectively.

The 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.

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

Weighted-average assumptions as of June 30, 2012

Discount rate	4.00%
Expected return on plan assets	6.00%
Rate of compensation increase	3.00%

ECKERD
NOTES TO FINANCIAL STATEMENTS
June 30, 2013 and 2012

9. Employee Benefit Plans (continued)

Eckerd's pension plan weighted average asset allocation at June 30, 2012 by asset category is as follows:

<u>Asset Category</u>	<u>Target Allocation</u>	<u>Actual</u>
Equity Securities	70%	69.10%
Fixed Income Securities	<u>30%</u>	<u>30.90%</u>
Total	<u>100%</u>	<u>100.00%</u>

The valued of plan assets as June 30, 2012 is:

<u>Plan Assets</u>	<u>Assets Measured at Fair Value</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>
Equity Securities				
Growth Fund	\$441,182	\$441,182	\$ -	\$ -
International Fund	661,529	661,529	-	-
Blend Fund	2,767,518	2,767,518	-	-
Value Fund	433,872	433,872	-	-
Fixed Income				
US Treasury	926,757	926,757	-	-
Bond	624,935	624,935	-	-
Real Estate Investment				
Trust	194,322	-	-	194,322
Cash & Cash Equivalents *	<u>(46,402)</u>	<u>(46,402)</u>	-	-
Total	<u>\$6,003,713</u>	<u>\$5,809,391</u>	<u>\$ -</u>	<u>\$194,322</u>

The following provides further details of the Level 3 fair value measurement for the year ended June 30, 2012:

Beginning balance	\$ -
Purchases	182,628
Sales	(27,375)
Realized gain	2,796
Unrealized gain	<u>36,273</u>
Ending balance	<u>\$194,322</u>

* Cash and cash equivalents is negative as of June 30, 2012 due to timing of clearing of trades and investment fees.

ECKERD
NOTES TO FINANCIAL STATEMENTS
June 30, 2013 and 2012

10. Lease Commitments

Eckerd leases certain facilities and equipment under cancelable and non-cancelable operating leases. Future minimum annual rental payments on non-cancelable operating leases as of June 30, 2013 are summarized as follows:

<u>Year</u>	<u>Amount</u>
2014	\$1,879,084
2015	1,326,126
2016	648,566
2017	<u>96,462</u>
	<u>\$3,950,238</u>

11. Income Taxes

Eckerd has been recognized as a publicly supported educational institution under Section 501(c)(3) of the Internal Revenue Code and is therefore exempt from federal and state income taxes except for any income which is derived from debt financed property or investments. At June 30, 2013 and 2012, Eckerd estimated no income tax liability.

12. Related Party

Eckerd received contributions totaling \$61,395 and \$48,806 from board members during the years ended June 30, 2013 and 2012, respectively.

13. Insurance Coverage

Eckerd has purchased insurance for major areas of exposure. The following is a summary for each line of insurance:

Dental - Eckerd is partially self-insured for dental coverage for the indemnity dental plan as it pays all claims up to \$1,000 per person, per year.

Health Insurance - For the years ended June 30, 2013 and 2012, health insurance expense was \$2,882,010 and \$3,119,640, respectively.

Workers Compensation - Eckerd has one policy to cover workers' compensation for all states. Eckerd pays a deductible up to \$350,000 per occurrence. Eckerd is insured by an outside agency for any claims in excess of these amounts. At June 30, 2013 and 2012, Eckerd had an accumulated reserve (liability) of \$219,881 and \$632,071, respectively, to cover any outstanding claims related to workers compensation. There is one letter of credit for \$2,925,000 at June 30, 2013, required by the insurance agent to help insure payment of all claims. Management believes sufficient reserves have been established as of June 30, 2012.

ECKERD
NOTES TO FINANCIAL STATEMENTS
June 30, 2013 and 2012

13. Insurance Coverage (continued)

Cyber Liability - Eckerd carries Cyber Liability coverage with a \$25,000 deductible and limit of \$1,000,000.

Auto Insurance – The auto insurance has a deductible up to \$1,000 per occurrence with a limit of \$1,000,000. The combined maximum for both workers compensation and auto liability is \$2,000,000 per year.

General Liability - Eckerd is also insured for general liability with self-insured retention of \$25,000 per occurrence up to \$3,000,000 for the year. Eckerd also has excess general liability for an additional \$10,000,000 for the year and provide coverage above our Auto, General, Professional and Sexual Abuse and Employer’s Liability policies.

14. Credit Policy and Concentration of Credit Risk

Eckerd is a not-for-profit entity providing educational, rehabilitation, and therapeutic programs for adolescents through facilities in several states. Funding is generally provided from federal, state and local government sources. Accounts receivable primarily represent uncollected billings under these contracts. As of June 30, 2013 and 2012, no reserve for uncollectible accounts was considered necessary. As of June 30, 2013 and 2012, there is a reserve of \$20,837 and \$30,572, respectively, for any repayment of Medicaid claims resulting from a Medicaid audit.

The following is the estimated concentration of revenue and receivables for the year ended June 30, 2013 and 2012:

	<u>2013</u>		<u>2012</u>	
	<u>Revenue</u>	<u>Receivable</u>	<u>Revenue</u>	<u>Receivable</u>
Federal Sources	43%	7%	35%	12%
Medicaid	1%	1%	2%	3%
State Sources	<u>56%</u>	<u>92%</u>	<u>63%</u>	<u>85%</u>
	<u>100%</u>	<u>100%</u>	<u>100%</u>	<u>100%</u>

Eckerd maintains its cash balances at various times during the year in excess of the \$250,000 guaranteed by the Federal Deposit Insurance Corporation. At June 30, 2013 and 2012, Eckerd held approximately \$11,346,914 and \$11,887,000, respectively, in deposits that were in excess of the amounts insured by the Federal Deposit Insurance Corporation. Due to FDIC coverage limits and cash flow needs, it is impractical to 100% coverage. Eckerd has performed due diligence on the financial institutions used and is relying on the financial strength of these institutions.

ECKERD
NOTES TO FINANCIAL STATEMENTS
June 30, 2013 and 2012

15. Endowments

Eckerd's endowments consist of 3 individual funds established for a variety of purposes. The endowments include both donor restricted endowment funds and funds designated by the Board of Directors to function as endowments. As required by GAAP, net assets associated with endowment funds, including funds designated by the Board of Directors to function as endowments, are classified and reported based on the existence or absence of donor-imposed restrictions. The Board of Directors of Eckerd has interpreted the Florida Uniform Prudent Management of Institutional Funds Act (FUPMIFA) as requiring the preservation of the fair value of the original gift as of the gift date of the donor-restricted endowment funds absent explicit donor stipulations to the contrary. As a result of this interpretation, Eckerd classifies as permanently restricted net assets (a) the original value of gifts donated to the permanent endowment, (b) the original value of subsequent gifts to the permanent endowment and (c) accumulations to the permanent endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund. All permanently restricted net assets consist of perpetual trusts held by third parties. For certain endowment funds, the donor's have stipulated that additional accumulation of funds above and beyond the permanent endowment are unrestricted as to purpose and are therefore classified as unrestricted.

Eckerd's investment policy is to earn interest on cash owned by investing in high quality low risk funds while still meeting the liquidity needs of the organization. Investments may only be made in equity and fixed income securities. Eckerd may only invest in equity securities listed on an American Stock Exchange. The fixed income securities shall be AA rated or better. This policy applies to Board designated endowment only as the donor directed endowment investments are held by third parties.

Endowment net asset composition by type of fund as of June 30, 2013 and 2012:

	<u>2013</u>			<u>2012</u>		
	<u>Unrestricted</u>	<u>Permanently Restricted</u>	<u>Total</u>	<u>Unrestricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Donor restricted	\$ -	\$21,023,273	\$21,023,273	\$ -	\$19,451,064	\$19,451,064
Board designated	<u>2,859,328</u>	<u>-</u>	<u>2,859,328</u>	<u>8,905,316</u>	<u>-</u>	<u>8,905,316</u>
	<u>\$2,859,328</u>	<u>\$21,023,273</u>	<u>\$23,882,601</u>	<u>\$8,905,316</u>	<u>\$19,451,064</u>	<u>\$28,356,380</u>

ECKERD
NOTES TO FINANCIAL STATEMENTS
June 30, 2013 and 2012

15. Endowments (continued)

Changes in endowment net assets for the years ended June 30, 2013 and 2012:

	<u>Unrestricted</u>	<u>2013</u> Permanently <u>Restricted</u>	<u>Total</u>
Endowment net assets, beginning of year	\$8,905,316	\$19,451,064	\$28,356,380
Investment income	139,780	652,380	792,160
Payments (fees, tax, distributions)	(6,668,948)	(1,116,218)	(7,785,166)
Unrealized gain	483,180	2,036,047	2,519,227
Endowment net assets, end of year	<u>\$2,859,328</u>	<u>\$21,023,273</u>	<u>\$23,882,601</u>

	<u>Unrestricted</u>	<u>2012</u> Permanently <u>Restricted</u>	<u>Total</u>
Endowment net assets, beginning of year	\$6,302,830	\$20,332,628	\$26,635,458
Investment income	619,975	550,855	1,170,830
Payments (fees, tax, distributions)	(217,533)	(182,340)	(399,873)
Deposit	2,406,351	-	2,406,351
Unrealized loss	(206,307)	(1,250,079)	(1,456,386)
Endowment net assets, end of year	<u>\$8,905,316</u>	<u>\$19,451,064</u>	<u>\$28,356,380</u>

ECKERD
NOTES TO FINANCIAL STATEMENTS
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16. Capital Leases

The gross amount of equipment and related accumulated depreciation recorded under these capital leases were as follows:

Equipment	\$258,582
Less: accumulated depreciation	<u>(150,530)</u>
	<u>\$108,052</u>

Capital lease obligations consist of leases with Enterprise Fleet Management. The interest rates range from 4.50% to 7.30% and the leases mature through January 2016. The capital leases are secured by the related equipment. Eckerd acquired property and equipment under capital lease obligations of approximately \$0 and \$42,305, which was excluded from the Statement of Cash Flows at June 30, 2013 and 2012, respectively.

Future minimum payments as of June 30, 2013 are as follows:

2014	\$50,417
2015	44,345
2016	<u>3,846</u>
Total minimum lease payments	98,608
Less: amount representing interest	<u>(5,621)</u>
Present value of lease payments	<u>\$92,987</u>

Interest expense on all long term obligations for the year ended June 30, 2013 and 2012 was \$7,346 and \$14,895, respectively.

17. Mortgage Receivable

Eckerd sold property located in Clewiston Florida in December 2010 and is holding the note on the property. The interest rate on the note is currently at 5.5%. Interest only payments are due through May, 2018 and the entire outstanding principal balance is due in June, 2018. Interest income is recognized monthly based on the current amortization schedule at 5.5%. The mortgage receivable is valued at the unpaid principal balance plus accrued interest. The balance was \$1,112,107 and \$1,149,147 as of June 30, 2013 and 2012, respectively. As of June 30, 2013, the note was considered collectible so no reserve was necessary. There is no allowance for credit losses.

ECKERD
NOTES TO FINANCIAL STATEMENTS
June 30, 2013 and 2012

18. Contingencies

Amounts received under various contracts and grants require the fulfillment of certain conditions as set forth in the agreement. Failure to fulfill the conditions could result in the return of the funds to the grantors. Management is of the opinion that Eckerd has complied with all provisions of the grants and that such contingency is remote.

Eckerd is occasionally involved in litigation. The outcome of current litigation cannot be determined at the report date. Management is not aware of any outstanding or unasserted claims under these suits and believes that any possible final outcome will be covered by insurance in force at June 30, 2013.