



Financial Statement

June 30, 2014

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Eckerd

ECKERD
TABLE OF CONTENTS

	<u>Page</u>
<u>INDEPENDENT AUDITOR'S REPORT</u>	1 - 2
<u>FINANCIAL STATEMENTS</u>	
Statements of Financial Position	3 - 4
Statements of Activities	5 - 6
Statements of Cash Flows	7
Statements of Functional Expenses	8 - 9
Notes to Financial Statements	10 - 26

INDEPENDENT AUDITOR'S REPORT

INDEPENDENT AUDITOR'S REPORT

The Board of Directors
Eckerd Youth Alternatives, Inc.
Clearwater, Florida

Report on the Financial Statements

We have audited the accompanying financial statements of Eckerd Youth Alternatives ("Eckerd"), which comprise the statement of financial position as of June 30, 2014, and the related statements of activities, functional expenses, and cash flows for the year 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 audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the 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.

(Continued)

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, 2014, and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matter

The financial statements of Eckerd as of June 30, 2013, were audited by other auditors whose report dated October 3, 2013, expressed an unmodified opinion on those statements.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated December 3, 2014, on our consideration of Eckerd'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 to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Eckerd's internal control over financial reporting and compliance.

Crowe Horwath LLP

Crowe Horwath LLP

Tampa, Florida
December 3, 2014

FINANCIAL STATEMENTS

ECKERD
STATEMENTS OF FINANCIAL POSITION

June 30, 2014 and 2013

	June 30, 2014			Total
	Unrestricted	Temporarily Restricted	Permanently Restricted	
Assets:				
Cash and cash equivalents	\$15,857,989	\$767,765	\$ -	\$16,625,754
Restricted cash	812,469	-	-	812,469
Contracts receivable	4,281,082	-	-	4,281,082
Other receivables	873,985	-	-	873,985
Contributions receivable	-	859,701	-	859,701
Prepaid expenses	853,177	-	-	853,177
Deposits	468,224	-	-	468,224
Other assets	13,722	-	-	13,722
Investments	2,899,219	-	-	2,899,219
Mortgage receivable	1,522,595	-	-	1,522,595
Property and equipment (net)	8,295,013	-	-	8,295,013
Beneficial interest in perpetual trust	-	-	23,424,097	23,424,097
Total assets	\$35,877,475	\$1,627,466	\$23,424,097	\$60,929,038
Liabilities and net assets:				
Liabilities:				
Accounts payable	\$6,690,875	\$ -	\$ -	\$6,690,875
Accrued expenses	3,317,235	-	-	3,317,235
Lease payable	361,016	-	-	361,016
Accrued pension - defined contribution	915,223	-	-	915,223
Deferred revenue	5,094,020	-	-	5,094,020
Accrued pension - deferred compensation	236,986	-	-	236,986
Total liabilities	16,615,355	-	-	16,615,355
Net assets:				
Unrestricted				
Undesignated	16,054,764	-	-	16,054,764
Designated	3,207,356	-	-	3,207,356
Temporarily restricted	-	1,627,466	-	1,627,466
Permanently restricted	-	-	23,424,097	23,424,097
Total net assets	19,262,120	1,627,466	23,424,097	44,313,683
Total liabilities and net assets	\$35,877,475	\$1,627,466	\$23,424,097	\$60,929,038

June 30, 2013

Unrestricted	Temporarily Restricted	Permanently Restricted	Total
\$8,772,745	\$662,117	\$ -	\$9,434,862
997,416	-	-	997,416
4,991,504	-	-	4,991,504
413,653	-	-	413,653
-	424,936	-	424,936
891,200	-	-	891,200
356,480	-	-	356,480
-	-	-	-
2,584,726	-	-	2,584,726
1,112,107	-	-	1,112,107
8,789,241	-	-	8,789,241
-	-	21,023,273	21,023,273
<u>\$28,909,072</u>	<u>\$1,087,053</u>	<u>\$21,023,273</u>	<u>\$51,019,398</u>
\$4,468,087	\$ -	\$ -	\$4,468,087
4,274,571	-	-	4,274,571
92,987	-	-	92,987
605,303	-	-	605,303
871,727	-	-	871,727
165,851	-	-	165,851
<u>10,478,526</u>	<u>-</u>	<u>-</u>	<u>10,478,526</u>
15,571,218	-	-	15,571,218
2,859,328	-	-	2,859,328
-	1,087,053	-	1,087,053
-	-	21,023,273	21,023,273
<u>18,430,546</u>	<u>1,087,053</u>	<u>21,023,273</u>	<u>40,540,872</u>
<u>\$28,909,072</u>	<u>\$1,087,053</u>	<u>\$21,023,273</u>	<u>\$51,019,398</u>

ECKERD
STATEMENTS OF ACTIVITIES

Years ended June 30, 2014 and 2013

	Year Ended June 30, 2014			Total
	Unrestricted	Temporarily Restricted	Permanently Restricted	
Revenues and gains:				
Client	\$150,988,150	\$ -	\$ -	\$150,988,150
Other program	571,680	-	-	571,680
Contributions	576,585	2,906,511	-	3,483,096
Interest and dividends net of investment fees	50,647	-	-	50,647
Interest income	56,020	-	-	56,020
Gain (Loss) on sale of assets	119,231	-	-	119,231
Other revenue	89,868	-	-	89,868
Total revenues and gains	<u>152,452,181</u>	<u>2,906,511</u>	<u>-</u>	<u>155,358,692</u>
Net assets released from restrictions for operations:				
Satisfaction of donor restrictions	2,366,098	(2,366,098)	-	-
Total net assets released from restrictions for operations	<u>2,366,098</u>	<u>(2,366,098)</u>	<u>-</u>	<u>-</u>
Total revenues and gains	<u>154,818,279</u>	<u>540,413</u>	<u>-</u>	<u>155,358,692</u>
Expenses and losses:				
Operating	151,002,772	-	-	151,002,772
Other	3,280,540	-	-	3,280,540
Total expenses and losses	<u>154,283,312</u>	<u>-</u>	<u>-</u>	<u>154,283,312</u>
(Decrease)/Increase in net assets from operations	<u>534,967</u>	<u>540,413</u>	<u>-</u>	<u>1,075,380</u>
Non-operating activity:				
Investment gain	296,607	-	-	296,607
Change in value of beneficial interest in perpetual trust	-	-	2,400,824	2,400,824
Total non-operating activity	<u>296,607</u>	<u>-</u>	<u>2,400,824</u>	<u>2,697,431</u>
(Decrease)/Increase in net assets before change in prepaid pension benefit	<u>831,574</u>	<u>540,413</u>	<u>2,400,824</u>	<u>3,772,811</u>
Change in prepaid pension benefit:				
Change in liability for pension benefits	-	-	-	-
Pension related changes other than net periodic pension costs	-	-	-	-
Total change in prepaid pension benefit	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
(Decrease)/Increase in net assets	<u>831,574</u>	<u>540,413</u>	<u>2,400,824</u>	<u>3,772,811</u>
Net assets at beginning of year	<u>18,430,546</u>	<u>1,087,053</u>	<u>21,023,273</u>	<u>40,540,872</u>
Net assets at end of year	<u>\$19,262,120</u>	<u>\$1,627,466</u>	<u>\$23,424,097</u>	<u>\$44,313,683</u>

Unrestricted	Year Ended June 30, 2013		Total
	Temporarily Restricted	Permanently Restricted	
\$148,673,488	\$ -	\$ -	\$148,673,488
697,651	-	-	697,651
811,225	2,310,867	-	3,122,092
90,667	-	-	90,667
44,677	-	-	44,677
79,574	-	-	79,574
114,704	-	-	114,704
<u>150,511,986</u>	<u>2,310,867</u>	<u>-</u>	<u>152,822,853</u>
2,519,773	(2,519,773)	-	-
<u>2,519,773</u>	<u>(2,519,773)</u>	<u>-</u>	<u>-</u>
<u>153,031,759</u>	<u>(208,906)</u>	<u>-</u>	<u>152,822,853</u>
148,508,235	-	-	148,508,235
3,211,969	-	-	3,211,969
<u>151,720,204</u>	<u>-</u>	<u>-</u>	<u>151,720,204</u>
<u>1,311,555</u>	<u>(208,906)</u>	<u>-</u>	<u>1,102,649</u>
483,345	-	-	483,345
-	-	1,572,209	1,572,209
<u>483,345</u>	<u>-</u>	<u>1,572,209</u>	<u>2,055,554</u>
<u>1,794,900</u>	<u>(208,906)</u>	<u>1,572,209</u>	<u>3,158,203</u>
(717,261)	-	-	(717,261)
(716,681)	-	-	(716,681)
<u>(1,433,942)</u>	<u>-</u>	<u>-</u>	<u>(1,433,942)</u>
360,958	(208,906)	1,572,209	1,724,261
18,069,588	1,295,959	19,451,064	38,816,611
<u>\$18,430,546</u>	<u>\$1,087,053</u>	<u>\$21,023,273</u>	<u>\$40,540,872</u>

ECKERD
STATEMENTS OF CASH FLOWS

Years ended June 30, 2014 and 2013

	<u>Year Ended</u> <u>June 30, 2014</u>	<u>Year Ended</u> <u>June 30, 2013</u>
Cash flows from operating activities:		
Increase in net assets	3,772,811	1,724,261
Adjustments to reconcile increase in net assets to net cash provided by operating activities:		
Depreciation	1,169,601	1,104,033
Bad Debt Expense	13,619	4,137
Unrealized (gain)/loss on investments	(296,607)	(371,708)
Loss on sale and retirement of fixed assets	(107,477)	50,024
Change in value of beneficial interest in perpetual trust	(2,400,824)	(1,572,209)
(Increase) decrease in assets:		
Receivables	(198,294)	(2,962,409)
Prepaid expenses	38,023	(16,519)
Deposits	(111,744)	(41,583)
Other	(13,722)	-
Increase (decrease) in liabilities:		
Accounts payable	2,222,788	697,106
Accrued expenses	(957,336)	858,566
Accrued pension - defined contribution	309,920	28,127
Deferred revenue	4,222,293	490,327
Accrued pension - deferred compensation	71,135	165,851
Accrued pension - defined benefit	-	(5,450,107)
Net cash provided/(used) by operating activities	<u>7,734,186</u>	<u>(5,292,103)</u>
Cash flows from investing activities:		
Purchase of property and equipment	(1,129,519)	(979,698)
Proceeds from disposal of property and equipment	94,123	68,702
Proceeds from mortgage receivable	57,012	37,040
Purchase of investments	(1,677,859)	(4,871,312)
Proceeds from disposal of investments	1,659,973	10,354,208
Net cash provided/(used) by investing activities	<u>(996,270)</u>	<u>4,608,940</u>
Cash flows from financing activities:		
Payments on capital lease obligation	268,029	(78,715)
Cash flows provided/(used) by financing activities:	<u>268,029</u>	<u>(78,715)</u>
Net increase (decrease) in cash, cash equivalents and restricted cash	7,005,945	(761,878)
Cash, cash equivalents and restricted cash, beginning of year	<u>10,432,278</u>	<u>11,194,156</u>
Cash, cash equivalents and restricted cash, end of year	<u>\$17,438,223</u>	<u>\$10,432,278</u>
Supplemental Schedule of Noncash Investing Activities:		
Assets acquired under capital lease	\$ 380,921	\$ -

ECKERD
STATEMENTS OF FUNCTIONAL EXPENSES

Years ended June 30, 2014 and 2013

	Year Ended June 30, 2014				
	Residential Programs	Non-Residential Programs	Lead Agency	Central Services	Total
Operating expenses:					
Payroll and related expenses:					
Salaries and wages	\$ 4,430,102	\$ 5,274,991	\$ 6,375,224	\$ 5,322,388	\$ 21,402,705
Payroll taxes	388,748	464,945	569,854	442,643	1,866,190
Worker's compensation	140,001	120,329	50,166	47,946	358,442
Pension	149,886	170,696	215,811	254,724	791,117
Health insurance	879,279	833,386	1,062,480	465,945	3,241,090
Total payroll and related expenses	5,988,016	6,864,347	8,273,535	6,533,646	27,659,544
Employee related	79,500	104,566	112,109	126,960	423,135
Supplies & materials	188,029	96,551	955,454	205,106	1,445,140
Food	426,453	16,307	-	192	442,952
Travel	75,476	722,759	239,517	442,583	1,480,335
Repairs and maintenance	197,946	49,950	423,484	200,260	871,640
Utilities	279,312	30,880	37,257	64,129	411,578
Telephone	100,909	243,464	540,437	246,712	1,131,522
Depreciation	470,633	159,777	25,120	430,135	1,085,665
Insurance	387,967	550,253	770,310	194,256	1,902,786
Professional fees	103,423	53,553	416,298	1,263,626	1,836,900
Rent	99,499	527,813	1,998,115	137,203	2,762,630
Purchased services	-	1,558,793	104,140,558	76,121	105,775,472
Client related	165,358	95,690	3,211,451	366	3,472,865
Miscellaneous	(72,687)	(176,554)	576,426	(26,577)	300,608
Total operating expenses	8,489,834	10,898,149	121,720,071	9,894,718	151,002,772
Central service allocation	1,684,777	2,315,879	5,894,062	(9,894,718)	-
Total expenses	<u>\$ 10,174,611</u>	<u>\$ 13,214,028</u>	<u>\$ 127,614,133</u>	<u>\$ -</u>	<u>\$ 151,002,772</u>

Year Ended June 30, 2013

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

ECKERD
NOTES TO FINANCIAL STATEMENTS
June 30, 2014 and 2013

1. Organization and Nature of Activities

Eckerd is a national nonprofit organization that has given second chances to nearly 150,000 children and families since 1968. Eckerd currently serves more than 15,000 children and families annually through more than 30+ life-changing behavioral health, juvenile justice 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 48 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 (GAAP). 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, 2014 and 2013

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 is 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 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, 2014 and 2013, 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 GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

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.

Deferred Revenue - Deferred revenue represents grant and contract revenues which have been received, but for which the prescribed services have not yet been completed. These revenues will be recognized in income when these services are completed.

ECKERD
NOTES TO FINANCIAL STATEMENTS
June 30, 2014 and 2013

2. Summary of Significant Accounting Policies (continued)

Advertising – Advertising expenses are expensed as incurred.

Fundraising - Fundraising expenses for the years ended June 30, 2014 and 2013 were \$723,697 and \$510,812, respectively, and included in other expense.

Management’s Review

Management has evaluated subsequent 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 – Eckerd has received determination of tax exempt status from the Internal Revenue Service Code Section 501(c)(3) and, consequently, the earnings of Eckerd are not taxed.

A tax position is recognized as a benefit only if it is “more likely than not” that the tax position would be sustained in a tax examination, with a tax examination being presumed to occur. The amount recognized is the largest amount of tax benefit that is greater than 50% likely of being realized on examination. For tax positions not meeting the “more than likely than not” test, no tax benefit is recorded.

Eckerd is no longer subject to examination by taxing authorities for years before June 30, 2011. Eckerd does not expect the total amount of unrecognized tax benefits to significantly change in the next 12 months. Eckerd recognizes interest and/or penalties related to income tax matters in income tax expense. Eckerd did not have any amount accrued for interest and penalties at June 30, 2014 or 2013, respectively.

Reclassifications - Certain prior year amounts have been reclassified to conform to the current year presentation. The reclassifications had no impact on net assets.

3. Contribution Receivable

Future amounts of contributions receivable at June 30, 2014 and 2013 are estimated as follows:

	<u>2014</u>	<u>2013</u>
Contributions Receivable	<u>\$ 859,701</u>	<u>\$424,936</u>

Contributions receivable consist primarily of promises from a private foundation. Payment of 98% of this pledge was received in July 2014. Therefore, no discount or allowance was deemed necessary.

ECKERD
NOTES TO FINANCIAL STATEMENTS
June 30, 2014 and 2013

4. Investments

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

	<u>2014</u>	<u>2013</u>
Corporate Bonds	\$1,139,430	\$999,876
Equity Securities	<u>1,759,789</u>	<u>1,584,850</u>
	<u>\$2,899,219</u>	<u>\$2,584,726</u>

Investment income from these investments for the years ended June 30, 2014 and 2013 are summarized as follows:

	<u>2014</u>	<u>2013</u>
Interest and Dividends	\$73,442	\$139,779
Investment Fees	(22,795)	(49,112)
Net Realized and Unrealized Gains	<u>296,607</u>	<u>483,345</u>
	<u>\$347,254</u>	<u>\$574,012</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, 2014 and 2013

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, 2014 and 2013.

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.

ECKERD
NOTES TO FINANCIAL STATEMENTS
June 30, 2014 and 2013

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>2014</u>			
	<u>Assets</u> <u>Measured at</u> <u>Fair Value</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>
Equities				
Health Care	\$272,206	\$272,206	\$ -	\$ -
Consumer Staples	94,533	94,533	-	-
Information Technology	299,966	299,966	-	-
Consumer Discretionary	277,582	277,582	-	-
Industrials	209,271	209,271	-	-
Materials	94,186	94,186	-	-
Financials	324,896	324,896	-	-
Telecommunication	10,936	10,936	-	-
Utilities	818	818	-	-
Energy	175,396	175,396	-	-
Fixed Income				
Long Term Bond	182,133	182,133	-	-
Intermediate Term Bond	285,029	285,029	-	-
Short Term Bond	672,267	672,267	-	-
Subtotal	<u>2,899,219</u>	<u>2,899,219</u>	<u>-</u>	<u>-</u>
Beneficial Interest in Perpetual Trust	<u>23,424,097</u>	<u>-</u>	<u>-</u>	<u>23,424,097</u>
Grand Total	<u>\$26,323,316</u>	<u>\$2,899,219</u>	<u>\$ -</u>	<u>\$23,424,097</u>

ECKERD
NOTES TO FINANCIAL STATEMENTS
June 30, 2014 and 2013

5. Fair Value Measurement (continued)

<u>Investments</u>	<u>2013</u>			
	<u>Assets Measured at 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	-	-
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>-</u>	<u>-</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>

The following provides further details of the Level 3 fair value measurement for the years ended June 30, 2014 and 2013:

	<u>2014</u>	<u>2013</u>
Beginning balance	\$21,023,273	\$19,451,064
Change in beneficial interests in trusts	2,400,824	1,572,209
Ending balance	<u>\$23,424,097</u>	<u>\$21,023,273</u>

ECKERD
NOTES TO FINANCIAL STATEMENTS
June 30, 2014 and 2013

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. 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, 2014 and 2013.

6. Property and Equipment

Property and equipment at June 30, 2014 and 2013 are summarized as follows:

	Estimated <u>Life</u>	2014	2013
Land		\$ 1,794,840	\$ 2,044,840
Buildings and improvements	10-20 years	14,716,427	14,999,585
Furniture and equipment	5 years	5,035,075	5,566,625
Transportation equipment	3-10 years	1,195,631	908,352
Construction in progress		<u>509,108</u>	<u>340,310</u>
<i>Total</i>		23,252,081	23,859,712
Less accumulated depreciation		<u>(14,956,068)</u>	<u>(15,070,471)</u>
Net property and equipment		<u>\$ 8,295,013</u>	<u>\$8,789,241</u>

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.

ECKERD
NOTES TO FINANCIAL STATEMENTS
June 30, 2014 and 2013

8. Net Assets

Unrestricted Designated Net Assets

Unrestricted designated net assets as of June 30, 2014 and 2013 consist of the following:

	<u>2014</u>	<u>2013</u>
Endowment designated for future use	\$3,207,356	\$2,859,328

Temporarily Restricted Net Assets

Temporarily restricted net assets as of June 30, 2014 and 2013 consist of the following:

	<u>2014</u>	<u>2013</u>
Donor Restricted for Purpose:		
Scholarship	\$150,079	\$141,880
Program/Staff Growth and Transformation	234,969	76,195
Resource Room	103,631	142,334
Program Activities	293,286	302,408
Restricted for Time	<u>845,501</u>	<u>424,236</u>
	<u>\$1,627,466</u>	<u>\$1,087,053</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, 2014 and 2013 consists of the following:

	<u>2014</u>	<u>2013</u>
National Foundation for Youth	\$21,753,029	\$19,408,451
Richard J. Ross Trust	<u>1,671,068</u>	<u>1,614,822</u>
	<u>\$23,424,097</u>	<u>\$21,023,273</u>

9. Employee Benefit Plans

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.

ECKERD
NOTES TO FINANCIAL STATEMENTS
June 30, 2014 and 2013

9. Employee Benefit Plans (continued)

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.

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 2014 and 2013 were \$827,838, and \$605,303, 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 2014 and 2013 were \$0 and \$6,858,979, respectively. Eckerd applies 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.

The following tables provide a reconciliation of the changes in the plans' benefit obligations for the year ended June 30, 2013:

Reconciliation of Projected Benefit Obligation

Obligation at beginning of year	\$ 11,453,820
Service cost	7,782
Interest cost	446,244
Actuarial (gain) loss	1,179,296
Benefit payments	(348,865)
Settlements	<u>(12,738,277)</u>
Obligation at end of year	<u>\$ 0</u>

ECKERD
NOTES TO FINANCIAL STATEMENTS
June 30, 2014 and 2013

9. Employee Benefit Plans (continued)

The following tables provide a reconciliation fair value of assets for the year ended June 30, 2013:

Reconciliation of Fair Value of Plan Assets

Fair value of plan assets at beginning of year	\$6,003,713
Actual return on plan assets	199,378
Benefit payments and expenses	(348,865)
Employer contributions	6,858,979
Settlements	(12,738,277)
Adjustments	<u>25,072</u>
Fair value of plan assets at end of year	<u>\$0</u>

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

Service cost	\$ 7,782
Interest cost	446,244
Expected return on plan assets	(199,378)
Amortization of net (gain) or loss	<u>462,613</u>
Net periodic benefit cost	<u>\$ 717,261</u>

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

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, 2014 are summarized as follows:

<u>Year</u>	<u>Amount</u>
2015	\$1,861,102
2016	1,523,025
2017	764,057
2018	269,144
2019	<u>276,829</u>
	<u>\$4,694,157</u>

ECKERD
NOTES TO FINANCIAL STATEMENTS
June 30, 2014 and 2013

11. 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, 2014 and 2013, health insurance expense was \$3,272,484 and \$2,882,010, 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, 2014 and 2013, Eckerd had an accumulated reserve (liability) of \$210,029 and \$219,881, respectively, to cover any outstanding claims related to workers compensation. There is one letter of credit for \$2,925,000 at June 30, 2014, required by the insurance agent to help insure payment of all claims. Management believes sufficient reserves have been established as of June 30, 2014.

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.

Crime/Employee Dishonesty - This policy has a \$1,000,000 limit with a deductible of \$15,000.

General Liability - Eckerd is insured for general liability with a deductible of \$25,000 and limits of \$1,000,000 per occurrence and \$3,000,000 for the year.

Professional Liability - Eckerd carries professional liability insurance with a deductible of \$25,000 and limits of \$1,000,000 per occurrence and \$3,000,000 for the year.

ECKERD
NOTES TO FINANCIAL STATEMENTS
June 30, 2014 and 2013

11. Insurance Coverage (continued)

Umbrella/Excess Liability - Eckerd carries two umbrella policies that combined provide \$9,000,000 limits in excess of the limits above our Auto, General and Professional Liability policies.

12. Related Party

Eckerd received contributions totaling \$271,879 and \$61,395 from board members during the years ended June 30, 2014 and 2013, respectively.

13. 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, 2014 and 2013, no reserve for uncollectible accounts was considered necessary. As of June 30, 2014 and 2013, there is a reserve of \$7,779 and \$20,837, 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, 2014 and 2013:

	<u>2014</u>		<u>2013</u>	
	<u>Revenue</u>	<u>Receivable</u>	<u>Revenue</u>	<u>Receivable</u>
Federal Sources	48%	7%	43%	7%
Medicaid	1%	1%	1%	1%
State Sources	<u>51%</u>	<u>92%</u>	<u>56%</u>	<u>92%</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, 2014 and 2013, Eckerd held approximately \$18,043,838 and \$11,346,914, 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 have 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, 2014 and 2013

14. 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.

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, 2014 and 2013:

	<u>2014</u>			<u>2013</u>		
	<u>Unrestricted</u>	<u>Permanently Restricted</u>	<u>Total</u>	<u>Unrestricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Donor restricted	\$ -	\$23,424,097	\$23,424,097	\$ -	\$21,023,273	\$21,023,273
Board designated	<u>3,207,356</u>	<u>-</u>	<u>3,207,356</u>	<u>2,859,328</u>	<u>-</u>	<u>2,859,328</u>
	<u>\$3,207,356</u>	<u>\$23,424,097</u>	<u>\$26,631,453</u>	<u>\$2,859,328</u>	<u>\$21,023,273</u>	<u>\$23,882,601</u>

ECKERD
NOTES TO FINANCIAL STATEMENTS
June 30, 2014 and 2013

14. Endowments (continued)

Changes in the endowment net assets for the years ended June 30, 2014 and 2013:

	<u>Unrestricted</u>	<u>2014 Permanently Restricted</u>	<u>Total</u>
Endowment net assets, beginning of year	\$2,859,328	\$21,023,273	\$23,882,601
Investment income	73,216	-	73,216
Payments (fees, tax, distributions)	(21,795)	-	(21,795)
Unrealized gain	296,607	-	296,607
Change in beneficial interest in trusts	-	2,400,824	2,400,824
Endowment net assets, end of year	<u>\$3,207,356</u>	<u>\$23,424,097</u>	<u>\$26,631,453</u>

	<u>Unrestricted</u>	<u>2013 Permanently Restricted</u>	<u>Total</u>
Endowment net assets, beginning of year	\$8,905,316	\$19,451,064	\$28,356,380
Investment income	139,780	-	139,780
Payments (fees, tax, distributions)	(6,668,948)	-	(6,668,948)
Unrealized gain	483,180	-	483,180
Change in beneficial interest in trusts	-	1,572,209	1,572,209
Endowment net assets, end of year	<u>\$2,859,328</u>	<u>\$21,023,273</u>	<u>\$23,882,601</u>

15. Capital Leases

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

Equipment	\$615,846
Less: accumulated depreciation	<u>(273,367)</u>
	<u>\$342,479</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 February 2019. The capital leases are secured by the related equipment. Eckerd acquired property and equipment under capital lease obligations of approximately \$380,921 and \$0, which was excluded from the Statement of Cash Flows at June 30, 2014 and 2013, respectively.

ECKERD
NOTES TO FINANCIAL STATEMENTS
June 30, 2014 and 2013

15. Capital Leases (continued)

Future minimum payments as of June 30, 2014 are as follows:

2015	\$130,305
2016	89,806
2017	85,960
2018	84,760
2019	<u>4,139</u>
Total minimum lease payments	394,970
Less: amount representing interest	<u>(31,160)</u>
Present value of lease payments	<u>\$363,810</u>

Interest expense on all long term obligations for the year ended June 30, 2014 and 2013 was \$18,554 and \$7,346, respectively.

16. Mortgage Receivable

Eckerd sold property located in Benson Vermont in December 2013 and Clewiston Florida in December 2010 and is holding the notes on both of these properties. The following is the details and outstanding balance at June 30, 2014 and 2013:

	<u>2014</u>	<u>2013</u>
Clewiston - 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%.	\$1,112,107	\$1,112,107
Benson - The interest rate on the note is 3%. Principal payments of \$100,000 are due annually at June 30, 2015 and 2016. The final payment (principal and accrued interest) is due June 30, 2017.	<u>\$410,488</u>	<u>\$0</u>
Total	<u>\$1,522,595</u>	<u>\$1,112,107</u>

As of June 30, 2014, the notes were considered collectible so no reserve was necessary. There is no allowance for credit losses.

ECKERD
NOTES TO FINANCIAL STATEMENTS
June 30, 2014 and 2013

17. 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, 2014.

18. Affiliated Organization

The National Foundation for Youth (NFY) is a 501(c)(3) not-for-profit organization whose mission is to raise and administer funds to non-profit organizations providing programs for youth and families. Two members of the Eckerd Board of Directors are also members of the NFY Board of Directors; accordingly, NFY is considered to be a related organization. The CFO for Eckerd also reviews the quarterly investment statements and provides input as needed. For the years ended June 30, 2013 and 2014, NFY provided funding of \$1,784,508 and \$2,373,691, respectively, to Eckerd.

19. Subsequent Events

Effective August 31, 2014 CARING for Children, an Asheville, North Carolina-based child welfare organization filed Amended and Restated Articles of Incorporation and Bylaws to change from the directorship form of a 501(c)(3) organization to the membership form, and named Eckerd as the sole member. CARING for Children remains a separate tax-exempt organization with its own Board of Directors and leadership; however, as the sole member of CARING, Eckerd will appoint the Board of Directors and the Executive Director of CARING. In addition to providing CARING with management oversight, Eckerd will provide certain administrative services to CARING in order to reduce costs and enhance efficiencies.

On August 22, 2014, Eckerd sold assets held for sale at June 30, 2014. The property in Tennessee was sold for \$890,000.

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100 Starcrest Drive | Clearwater, FL 33765
(727) 461-2990 | **Eckerd.org**