



# Financial Statements

June 30, 2016 and 2015

The first name in second chances.<sup>SM</sup>

**Eck**erd  
Kids

**ECKERD KIDS**  
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**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 consolidated financial statements of Eckerd Youth Alternatives, Inc. (d/b/a "Eckerd Kids"), which comprise the consolidated statements of financial position as of June 30, 2016 and 2015, and the related consolidated statements of activities, 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 consolidated financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

### *Auditor's Responsibility*

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We did not audit the financial statements CARING for Children, Inc. or Paxen, LLC, wholly owned subsidiaries, which represent the percentages of total assets and revenues listed below.

	<u>2016</u>		<u>2015</u>	
	Assets	Revenues	Assets	Revenues
CARING for Children, Inc.	2.65%	1.83%	1.62%	0.28%
Paxen, LLC	4.37%	4.78%	5.75%	2.72%
	<u>7.02%</u>	<u>6.61%</u>	<u>7.37%</u>	<u>3.00%</u>

Those statements were audited by other auditors, whose reports have been furnished to us, and our opinion, insofar as it relates to the amounts included for CARING for Children, Inc. and Paxen, LLC, is based solely on the report of the other auditors. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement. The financial statements of CARING for Children, Inc. were not audited in accordance with *Government Auditing Standards*.

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(Continued)

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

### ***Opinion***

In our opinion, based on our audits and the reports of the other auditors, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Eckerd Kids as of June 30, 2016 and 2015, 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.

### ***Emphasis of Matter***

As discussed in Note 24 to the consolidated financial statements, in 2016 a change in the reporting entity occurred. Our opinion is not modified with respect to this matter.

### ***Other Reporting Required by Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report dated December 15, 2016, on our consideration of Eckerd Kids' 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 Kids' internal control over financial reporting and compliance.



Crowe Horwath LLP

Tampa, Florida  
December 15, 2016

**FINANCIAL STATEMENTS**

**ECKERD KIDS**  
**STATEMENTS OF FINANCIAL POSITION**

**June 30, 2016 and 2015**

	<b>2016</b>	<b>2015</b>
<b>Assets:</b>		
Cash and cash equivalents	\$18,748,128	\$18,637,512
Restricted cash	809,827	599,720
Accounts receivable	8,143,054	9,282,805
Contributions receivable	576,794	410,594
Prepaid expenses	937,789	824,007
Deposits	493,701	502,667
Intangible assets	3,531,785	129,235
Other assets	67,452	175,415
Investments	4,182,416	4,118,471
Notes receivable	1,379,770	1,680,556
Goodwill	909,294	909,294
Property and equipment (net)	9,015,743	8,797,185
Beneficial interest in perpetual trust	22,648,329	23,133,479
	<b>\$71,444,082</b>	<b>\$69,200,940</b>
<b>Total assets</b>		
<b>Liabilities and net assets:</b>		
<b>Liabilities:</b>		
Accounts payable	\$7,164,872	\$9,090,965
Accrued expenses	6,730,715	4,300,932
Line of credit	-	1,118,626
Capital lease payable	306,717	137,773
Long term debt	1,587,590	1,404,083
Accrued pension - defined contribution	545,214	825,759
Deferred revenue	3,429,324	4,635,683
Accrued pension - deferred compensation	370,699	301,055
<b>Total liabilities</b>	<b>20,135,131</b>	<b>21,814,876</b>
<b>Net assets:</b>		
Unrestricted		
Undesignated	22,435,408	18,036,552
Designated	4,404,066	4,375,871
Temporarily restricted	1,855,346	1,875,788
Permanently restricted	22,614,131	23,097,853
<b>Total net assets</b>	<b>51,308,951</b>	<b>47,386,064</b>
<b>Total liabilities and net assets</b>	<b>\$71,444,082</b>	<b>\$69,200,940</b>

**ECKERD KIDS**  
**STATEMENTS OF ACTIVITIES**

Years ended June 30, 2016 and 2015

	Year Ended June 30, 2016			Total
	Unrestricted	Temporarily Restricted	Permanently Restricted	
<b>Revenues and gains:</b>				
Program revenue	\$ 187,822,239	\$ -	\$ -	\$ 187,822,239
Contributions	1,283,414	3,739,558	-	5,022,972
Interest and dividends net of fees	197,315	-	-	197,315
Gain on sale of assets	30,604	-	-	30,604
Other revenue	172,891	-	-	172,891
<b>Total revenues and gains</b>	<u>189,506,463</u>	<u>3,739,558</u>	<u>-</u>	<u>193,246,021</u>
<b>Net assets released from restrictions for operations:</b>				
Satisfaction of donor restrictions	3,760,000	(3,760,000)	-	-
<b>Total net assets released from restrictions for operations</b>	<u>3,760,000</u>	<u>(3,760,000)</u>	<u>-</u>	<u>-</u>
<b>Total revenues and gains</b>	<u>193,266,463</u>	<u>(20,442)</u>	<u>-</u>	<u>193,246,021</u>
<b>Expenses and losses:</b>				
Operating	186,506,335	-	-	186,506,335
Other	5,814,463	-	-	5,814,463
<b>Total expenses and losses</b>	<u>192,320,798</u>	<u>-</u>	<u>-</u>	<u>192,320,798</u>
<b>(Decrease)/Increase in net assets from operations</b>	<u>945,665</u>	<u>(20,442)</u>	<u>-</u>	<u>925,223</u>
<b>Non-operating activity:</b>				
Investment gain (loss)	(110,600)	-	-	(110,600)
Contribution received in acquisition of Caring for Children	-	-	-	-
Contribution received in donation from Henkels and McCoy	3,593,499	-	-	3,593,499
Change in value of beneficial interest in perpetual trust	(1,513)	-	(483,722)	(485,235)
<b>Total non-operating activity</b>	<u>3,481,386</u>	<u>-</u>	<u>(483,722)</u>	<u>2,997,664</u>
<b>(Decrease)/Increase in net assets</b>	<u>4,427,051</u>	<u>(20,442)</u>	<u>(483,722)</u>	<u>3,922,887</u>
<b>Net assets at beginning of year</b>	<u>22,412,423</u>	<u>1,875,788</u>	<u>23,097,853</u>	<u>47,386,064</u>
<b>Net assets at end of year</b>	<u>\$ 26,839,474</u>	<u>\$ 1,855,346</u>	<u>\$ 22,614,131</u>	<u>\$ 51,308,951</u>

<b>Year Ended June 30, 2015</b>			
<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
\$ 170,308,822	\$ -	\$ -	\$ 170,308,822
771,785	2,847,914	-	3,619,699
109,556	-	-	109,556
673,838	-	-	673,838
180,068	-	-	180,068
<u>172,044,069</u>	<u>2,847,914</u>	<u>-</u>	<u>174,891,983</u>
3,077,346	(3,077,346)	-	-
<u>3,077,346</u>	<u>(3,077,346)</u>	<u>-</u>	<u>-</u>
175,121,415	(229,432)	-	174,891,983
169,733,084	-	-	169,733,084
3,262,167	-	-	3,262,167
<u>172,995,251</u>	<u>-</u>	<u>-</u>	<u>172,995,251</u>
2,126,164	(229,432)	-	1,896,732
197,286	-	-	197,286
820,133	477,754	-	1,297,887
-	-	-	-
6,720	-	(326,244)	(319,524)
<u>1,024,139</u>	<u>477,754</u>	<u>(326,244)</u>	<u>1,175,649</u>
3,150,303	248,322	(326,244)	3,072,381
19,262,120	1,627,466	23,424,097	44,313,683
<u>\$ 22,412,423</u>	<u>\$ 1,875,788</u>	<u>\$ 23,097,853</u>	<u>\$ 47,386,064</u>

**ECKERD KIDS**  
**STATEMENTS OF CASH FLOWS**

Years ended June 30, 2016 and 2015

	2016	2015
<b>Cash flows from operating activities:</b>		
Increase in net assets	\$ 3,922,887	\$ 3,072,381
Adjustments to reconcile increase in net assets to net cash provided by operating activities:		
Depreciation and amortization	1,150,441	1,215,717
Bad Debt Expense	-	13,619
Unrealized (gain) loss on investments	110,600	(164,140)
Gain on sale and retirement of fixed assets	(30,604)	(464,893)
Change in value of beneficial interest in perpetual trust	485,235	326,142
Contribution on acquisition of Caring for Children	-	(1,297,887)
Contribution on acquisition of Henkels & McCoy	(3,593,499)	-
(Increase) decrease in assets:		
Receivables	1,274,337	(2,793,168)
Prepaid expenses	(113,782)	94,715
Deposits	34,250	6,019
Other	114,591	(138,868)
Increase (decrease) in liabilities:		
Accounts payable	(1,926,093)	2,201,478
Accrued expenses	2,429,783	615,025
Accrued pension - defined contribution	(280,545)	(89,464)
Deferred revenue	(1,206,359)	(458,337)
Accrued pension - deferred compensation	69,644	64,069
<b>Net cash provided by operating activities</b>	<b>2,440,886</b>	<b>2,202,408</b>
<b>Cash flows from investing activities:</b>		
Purchase of property and equipment	(1,212,776)	(1,138,175)
Proceeds from disposal of property and equipment	33,332	612,962
Proceeds from mortgage receivable	-	563,667
Purchase of investments	(2,271,344)	(2,498,902)
Proceeds from disposal of investments	2,096,800	1,439,905
Net cash received in acquisitions	-	348,478
<b>Net cash used by investing activities</b>	<b>(1,353,988)</b>	<b>(672,065)</b>
<b>Cash flows from financing activities:</b>		
Proceeds from short term borrowing	-	702,783
Payments on short term borrowing	(1,118,626)	-
Proceeds from long term debt	1,612,417	
Payments on long term debt	(1,259,966)	(434,117)
<b>Net cash provided (used) by financing activities</b>	<b>(766,175)</b>	<b>268,666</b>
<b>Net increase in cash, cash equivalents and restricted cash</b>	<b>320,723</b>	<b>1,799,009</b>
<b>Cash, cash equivalents and restricted cash, beginning of year</b>	<b>19,237,232</b>	<b>17,438,223</b>
<b>Cash, cash equivalents and restricted cash, end of year</b>	<b>\$ 19,557,955</b>	<b>\$ 19,237,232</b>
<b>Supplemental Schedule of Noncash Investing Activities:</b>		
Assets acquired under capital lease	\$ 259,623	\$ 104,170
Interest paid	\$ 116,140	\$ 27,121
Eckerd acquired Caring in 2015 for no consideration. Liabilities were assumed and a contribution was received from Caring as follows:		
Fair value of assets acquired		\$ 1,759,644
Liabilities assumed		(461,757)
Contribution received in acquisition of Caring		\$ 1,297,887
Eckerd acquired Paxen in 2015 for no consideration. Liabilities were assumed and goodwill was recorded as follows:		
Fair value of assets acquired		\$ 2,041,414
Liabilities assumed		(2,950,708)
Goodwill recorded on acquisition of Paxen		\$ (909,294)
Eckerd acquired Henkels & McCoy in 2016 for no consideration. In conjunction with the acquisition, liabilities were assumed and a contribution was received from Henkels & McCoy as follows:		
Fair value of assets acquired	\$ 3,593,499	
Contribution received in acquisition of Henkels & McCoy	\$ 3,593,499	

**ECKERD KIDS**  
**STATEMENTS OF FUNCTIONAL EXPENSES**

Years ended June 30, 2016 and 2015

	Year Ended June 30, 2016				
	Residential Programs	Non-Residential Programs	Lead Agency	Central Services	Total
<b>Operating expenses:</b>					
Payroll and related expenses	\$ 8,596,709	\$ 14,680,948	\$ 10,223,876	\$ 8,898,869	\$ 42,400,402
Employee related	79,256	66,659	29,533	92,345	267,793
Training	58,574	216,508	49,436	115,962	440,480
Supplies & materials	238,002	1,034,429	156,062	172,522	1,601,015
Food	539,578	25,224	-	413	565,215
Technology	25,456	25,767	107,257	339,765	498,245
Travel	68,507	947,547	156,086	550,708	1,722,848
Vehicle	82,800	151,102	(4,835)	38,527	267,594
Repairs and maintenance	214,710	429,952	69,503	73,593	787,758
Utilities	358,445	119,044	42,670	68,033	588,192
Telephone	142,114	327,585	373,361	286,683	1,129,743
Depreciation	520,884	88,776	15,296	456,834	1,081,790
Insurance	276,281	400,429	675,650	224,604	1,576,964
Professional fees	263,914	907,158	173,243	1,784,735	3,129,050
Rent	96,920	1,123,197	1,876,590	98,144	3,194,851
Purchased services	1,268	4,433,707	114,622,344	1,569,042	120,626,361
Client related	286,724	2,437,024	2,796,760	24,567	5,545,075
Miscellaneous	73,696	379,596	614,192	15,475	1,082,959
<b>Total operating expenses</b>	<b>\$ 11,923,838</b>	<b>\$ 27,794,652</b>	<b>\$ 131,977,024</b>	<b>\$ 14,810,821</b>	<b>\$ 186,506,335</b>

**Year Ended June 30, 2015**

<b>Residential Programs</b>	<b>Non-Residential Programs</b>	<b>Lead Agency</b>	<b>Central Services</b>	<b>Total</b>
\$ 6,904,023	\$ 11,291,116	\$ 8,779,971	\$ 7,713,193	\$ 34,688,303
39,209	50,259	19,125	37,175	145,768
50,856	125,981	66,087	107,494	350,418
272,753	288,024	586,888	145,722	1,293,387
485,249	20,753	-	982	506,984
4,112	88,759	254,882	366,705	714,458
50,852	923,971	142,227	428,551	1,545,601
78,941	84,819	6,667	27,170	197,597
196,062	60,189	150,229	63,736	470,216
301,951	69,391	44,808	68,912	485,062
115,622	307,338	444,483	261,588	1,129,031
522,443	169,163	17,403	398,037	1,107,046
314,525	447,696	566,491	164,589	1,493,301
152,887	450,225	296,214	1,491,899	2,391,225
102,790	838,675	1,860,510	82,089	2,884,064
-	3,488,799	111,065,510	109,925	114,664,234
205,484	937,742	3,648,096	1,954	4,793,276
49,941	(94,474)	385,715	531,931	873,113
<b>\$ 9,847,700</b>	<b>\$ 19,548,426</b>	<b>\$ 128,335,306</b>	<b>\$ 12,001,652</b>	<b>\$ 169,733,084</b>

**ECKERD KIDS**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2016**

**1. Organization and Nature of Activities**

Eckerd Kids is one of the largest nonprofit child and family service organizations in the United States. Eckerd Kids is an established national leader that has given much needed second chances to more than 200,000 children since 1968. Founded by Jack and Ruth Eckerd, our organization provides life-changing child welfare, juvenile justice, work force development and behavioral health programs to more than 25,000 children and families every year.

Our mission to provide and share solutions that promote the well-being of children and families in need of a second chance drives every action Eckerd Kids takes. Built on a bedrock of solution-oriented programs, Eckerd Kids assists both public and private organizations by sharing its best practices and advocating for system reform across the nation.

Eckerd Youth Alternatives, Inc. is the registered legal name with the State of Florida, however, the organization began doing business as (d/b/a) Eckerd Kids in February 2016. For more information about Eckerd Kids, please visit [www.Eckerd.org](http://www.Eckerd.org).

Effective August 31, 2014, Eckerd Kids was named the sole member of Caring for Children, Inc. Caring for Children, Inc. is a non-profit organization providing group homes, emergency shelters, foster care and other services to children in crisis in Western North Carolina. Caring for Children, Inc. remains a separate tax exempt organization with its own Board of Directors. All of the members of the Board of Directors resigned effective September 26, 2016 and all former members were appointed to an advisory committee for Caring for Children. A new board was formed consisting of Eckerd Kid's senior executive team.

Eckerd Kids acquired Paxen Learning Services, LLC and Paxen Huli Ke Alo, LLC on January 31, 2015. Paxen provides workforce development and day treatment in various states. Paxen is treated by the Internal Revenue Service as a disregarded entity for tax purposes and is therefore treated as a non-profit entity.

On April 1, 2016, Eckerd Kids acquired substantially all of the assets of Henkels and McCoy, Inc.'s Training Services Group, through a mutually agreed upon asset contribution agreement. Henkels and McCoy, Inc.'s Training Services Group provides workforce training programs that require basic education and employment skills, in order to obtain good jobs or enroll in post-secondary education. H&M's TSG specializes in operating programs for At-Risk youth, whether In-School or Out-of-School, who are participating in federal programs providing workforce training assistance.

**ECKERD KIDS**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2016**

**2. Summary of Significant Accounting Policies**

Principles of Consolidation – The consolidated financial statements include the accounts of Eckerd Kids and its wholly-owned subsidiaries as of the subsidiaries' acquisition date. Significant intercompany balances and transactions have been eliminated.

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 Kids 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 Kids 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.

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

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.

Accounts Receivable – Accounts receivable primarily consists of amounts due from governmental agencies for services performed. An allowance for doubtful accounts has not been established as management believes that all amounts are collectible.

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.

**ECKERD KIDS**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2016**

**2. Summary of Significant Accounting Policies (continued)**

Notes Receivable – Notes receivable are two separate mortgages for the sale of real estate and are stated at unpaid principal balances less the allowance for loan losses and net deferred loan fees and unearned discounts, if any. Loan fees and unearned discounts are recognized as income over the contractual term of the loan using the interest method. Amortization of deferred loan fees is discontinued when a loan is placed on nonaccrual status. Interest is recognized over the term of the loan and is calculated using the effective-interest method.

Notes receivable are placed on nonaccrual status when management determines, after considering economic and business conditions and collection efforts, that the loans are impaired or collection of interest is doubtful. Uncollectible interest previously accrued is charged off, or an allowance is established by a charge to interest income. Interest income on nonaccrual loans is recognized only to the extent that cash payments are received.

Management considers a loan impaired when based on current information or factors (such as payment history, value of collateral, and assessment of the customer’s current creditworthiness), it is probable that the principal and interest payments will not be collected according to the loan agreement. Management has determined that these amounts are fully collectible; therefore, no allowance for uncollectible accounts has been established or impairment recorded during the current year.

Goodwill – Goodwill represents the excess of the purchase price of net assets acquired over the fair value of those net assets at the date of an acquisition. Goodwill is assigned to specific reporting units and is review for possible impairment at least annually or more frequently upon the occurrence of an event or when circumstances indicate that a reporting unit’s carrying amount is greater than its fair value. When there is an indication of impairment, management determines fair value of goodwill in accordance with Financial Accounting Standards Board Accounts Standards Codification (“FASB ASC”) Topic 820, *Fair Value Measurements and Disclosures*.

Because there are no quoted market prices or other observable inputs available for the Organization’s reporting units, referred to as level 1 and level 2 inputs in FASB ASC 820, fair value is determined using unobservable inputs that management assumes a market participant would use to determine the pricing of the reporting unit, referred to as Level 3 inputs in FASB ASC 820.

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 \$5,000 is capitalized.

Capitalized Loan Fees – Loan fees are capitalized and amortized using the straight line method over the life of the underlying loan.

**ECKERD KIDS**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2016**

**2. Summary of Significant Accounting Policies (continued)**

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.

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 Kids 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.

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

Expense Allocation – Directly identifiable expenses are charged to programs and supporting services. Expenses related to more than one function are allocated to programs and supporting services using the most appropriate allocation methodology. Central service expenses include general and administrative expenses. For the years ended June 30, 2016 and 2015, these expenses are allocated to the various programs based on the most appropriate cost basis of each overhead department.

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.

Advertising – Advertising expenses are expensed as incurred.

Fundraising – Fundraising expenses for the year ended June 30, 2016 and 2015 were \$529,438 and \$786,396, respectively, and is included in other expense.

Management's Review

Management has evaluated subsequent events and transactions for potential recognition or disclosure through December 15, 2016 which is the date the financial statements were available to be issued.

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

**ECKERD KIDS**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2016**

**2. Summary of Significant Accounting Policies (continued)**

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 Kids is no longer subject to examination by taxing authorities for years before June 30, 2013. Eckerd Kids does not expect the total amount of unrecognized tax benefits to significantly change in the next 12 months. Eckerd Kids recognizes interest and/or penalties related to income tax matters in income tax expense. Eckerd Kids did not have any amount accrued for interest and penalties at June 30, 2016 and 2015.

**3. Contributions Receivable**

Future amounts of contributions receivable at June 30, 2016 and 2015 are estimated as follows:

	<u>2016</u>	<u>2015</u>
Contributions Receivable	\$576,794	\$410,594

Contributions receivable consist primarily of promises from a private foundation. Therefore, no discount or allowance was deemed necessary.

**4. Intangible Assets**

Intangible assets consist of timber rights for property owned in North Carolina and customer relationships received in connection with the contribution from Henkels & McCoy. Gross carrying amounts and accumulated amortization as of June 30, 2016 and 2015 are as follows:

	<u>June 30, 2016</u>		<u>June 30, 2015</u>	
	<u>Gross Carrying</u>	<u>Accumulated</u>	<u>Gross Carrying</u>	<u>Accumulated</u>
	<u>Amount</u>	<u>Amortization</u>	<u>Amount</u>	<u>Amortization</u>
Timber Rights	\$ 132,549	\$9,942	\$132,549	\$3,314
Customer Relationships	<u>3,409,178</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total	<u>\$3,541,727</u>	<u>\$9,942</u>	<u>\$132,549</u>	<u>\$3,314</u>

Timber rights have an expected useful life of 20 years and are being amortized based on straight line method. Customer relationships have an expected useful life of 15 years and are being amortized based on expected future cash flows.

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**4. Intangible Assets (continued)**

Amortization of these intangible assets is expected to be \$233,906 per year over the next five years. Total expense recognized as a result of amortization of intangible assets was \$6,628 and \$3,314 for 2016 and 2015, respectively and is included in other operating expense on the statement of activities.

**5. Other Assets**

The following summarizes other assets at June 30, 2016 and 2015:

	<u>2016</u>	<u>2015</u>
Inventory	\$ -	\$ 13,880
Capitalized pre-contract costs	67,452	134,905
Capitalized loan fees	<u>-</u>	<u>26,630</u>
	<u>\$67,452</u>	<u>\$175,415</u>

For the years ended June 30, 2016 and 2015, total expense of \$26,630 and \$5,548, respectively, was recognized as a result of the amortization of the loan costs.

Capitalized pre-contract costs include costs incurred before revenue begins to be recognized from a contract which are identifiable with a specific contract and are allocable to that contract. These costs were capitalized and will be amortized to the cost of sales over the life of the contract on a straight line basis. Amortization of contract costs amounted to \$67,453 and \$28,105 for the years ended June 30, 2016 and 2015, respectively.

**6. Investments**

Investments are recorded at fair value and are summarized at June 30, 2016 and 2015 as follows:

	<u>2016</u>	<u>2015</u>
Corporate Bonds	\$1,603,813	\$1,517,853
Equity Securities	<u>2,578,603</u>	<u>2,600,618</u>
	<u>\$4,182,416</u>	<u>\$4,118,471</u>

Investment income from these investments for the years ended June 30, 2016 and 2015 are summarized as follows:

	<u>2016</u>	<u>2015</u>
Interest and Dividends	\$ 79,233	\$ 70,296
Investment Fees	(26,224)	(41,962)
Net Realized and Unrealized Gains (Losses)	<u>(110,600)</u>	<u>197,286</u>
	<u>\$(57,591)</u>	<u>\$225,620</u>

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**6. Investments (continued)**

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 Kids. The net realized and unrealized gain (loss) is included in the non-operating section since it is not utilized in operations.

**7. Fair Value Measurement**

FASB 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.

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 for the year ended June 30, 2016.

*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.

**ECKERD KIDS**  
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**7. Fair Value Measurement (continued)**

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 at June 30, 2016 and 2015:

**2016**

<b><u>Investments</u></b>	<b>Assets Measured at <u>Fair Value</u></b>	<b><u>Level 1</u></b>	<b><u>Level 2</u></b>	<b><u>Level 3</u></b>
<b>Equities</b>				
Health Care	\$423,018	\$423,018	\$ -	\$ -
Consumer Staples	209,362	209,362	-	-
Information Technology	585,711	585,711	-	-
Consumer Discretionary	409,382	409,382	-	-
Industrials	258,388	258,388	-	-
Materials	114,903	114,903	-	-
Financials	347,352	347,352	-	-
Telecommunication	41,482	41,482	-	-
Utilities	21,596	21,596	-	-
Energy	167,410	167,410	-	-
<b>Fixed Income</b>				
Long Term Bond	258,107	258,107	-	-
Intermediate Term Bond	565,272	565,272	-	-
Short Term Bond	859,724	859,724	-	-
Subtotal	4,182,416	4,182,416	-	-
Beneficial Interest in Perpetual Trust	22,648,329	-	-	22,648,329
<b>Grand Total</b>	<b><u>\$26,830,745</u></b>	<b><u>\$4,182,416</u></b>	<b><u>\$ -</u></b>	<b><u>\$22,648,329</u></b>

**ECKERD KIDS**  
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**7. Fair Value Measurement (continued)**  
**2015**

<b><u>Investments</u></b>	<b>Assets Measured at <u>Fair Value</u></b>	<b><u>Level 1</u></b>	<b><u>Level 2</u></b>	<b><u>Level 3</u></b>
Equities				
Health Care	\$502,352	\$502,352	\$ -	\$ -
Consumer Staples	172,930	172,930	-	-
Information Technology	492,407	492,407	-	-
Consumer Discretionary	390,846	390,846	-	-
Industrials	265,851	265,851	-	-
Materials	111,385	111,385	-	-
Financials	471,377	471,377	-	-
Telecommunication	24,240	24,240	-	-
Utilities	12,412	12,412	-	-
Energy	156,818	156,818	-	-
Fixed Income				
Long Term Bond	250,824	250,824	-	-
Intermediate Term Bond	384,208	384,208	-	-
Short Term Bond	882,821	882,821	-	-
Subtotal	<u>4,118,471</u>	<u>4,118,471</u>	<u>-</u>	<u>-</u>
Beneficial Interest in Perpetual Trust	23,133,479	-	-	23,133,479
Grand Total	<u>\$27,251,950</u>	<u>\$4,118,471</u>	<u>\$ -</u>	<u>\$23,133,479</u>

The following provides further details of the Level 3 fair value measurement for the years ended June 30, 2016 and 2015:

	<u>2016</u>	<u>2015</u>
Beginning balance	\$23,133,479	\$23,424,097
Change in beneficial interests in trusts	(485,150)	35,524
Ending balance	<u>\$22,648,329</u>	<u>\$23,133,479</u>

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 on 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 years ended June 30, 2016 and 2015.

**ECKERD KIDS**  
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**8. Property and Equipment**

Property and equipment at June 30, 2016 and 2015 are summarized as follows:

	Estimated <u>Life</u>	<u>2016</u>	<u>2015</u>
Land	10 – 20 years	\$ 1,935,740	\$ 1,935,740
Building and improvements	5 years	14,517,377	14,035,859
Furniture and equipment	3 – 10 years	6,611,576	6,018,995
Transportation equipment	4 years	1,031,474	871,024
Construction in progress		<u>705,082</u>	<u>774,849</u>
<b>Total</b>		24,801,249	23,636,467
Less accumulated depreciation		<u>(15,785,506)</u>	<u>(14,839,282)</u>
<b>Net property and equipment</b>		<u>\$ 9,015,743</u>	<u>\$ 8,797,185</u>

Depreciation expense for the years ended June 30, 2016 and 2015 was \$1,150,441 and \$1,215,717, respectively. Amortization on capitalized assets is included in the depreciation expense.

**9. Beneficial Interest in Perpetual Trust Held by Third Party**

The Organization is an income beneficiary in three 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.

**10. Capital Leases Payable**

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

Equipment	\$431,959
Less: accumulated depreciation	<u>(136,618)</u>
	<u>\$295,341</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 June 2020. The capital leases are secured by the related equipment. Eckerd acquired property and equipment under capital lease obligations of approximately \$259,623 and \$ 104,170 which was excluded from the Statement of Cash Flows at June 30, 2016 and 2015, respectively.

**ECKERD KIDS**  
**NOTES TO FINANCIAL STATEMENTS**  
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**10. Capital Leases Payable (continued)**

Future minimum payments at June 30, 2016 are as follows:

2017	\$ 93,206
2018	93,300
2019	87,568
2020	<u>38,801</u>
Total minimum lease payments	310,664
Less: amount representing interest	<u>(6,158)</u>
Present value of lease payments	<u>\$306,717</u>

Interest expense on all long term obligations for the years ended June 30, 2016 and 2015 was \$4,116 and \$14,225, respectively.

**11. Long Term Debt**

Long term debt consists of the following at June 30:

	<u>2016</u>	<u>2015</u>
Term note with financial institution payable in monthly payments of \$29,181, which includes interest at a rate of 3.24% per annum; matures May 2021; collateralized by all assets of the Organization	\$ 1,587,590	\$ -
Term note with financial institution payable in monthly payments of \$44,292, which includes interest at a rate of 3.95% per annum; matures August 2017; collateralized by all assets of the Organization.	-	1,101,452
Term note with financial institution payable in monthly payments of \$2,251 which includes interest at a rate of 4.95%; matures December 2016; secured by certain property of the Organization.	<u>-</u>	<u>302,631</u>
Total Long Term Debt	<u>\$ 1,587,590</u>	<u>\$1,404,083</u>

Scheduled principal payments at June 30, 2016 are as follows:

<u>Year</u>	<u>Amount</u>
2017	\$ 302,967
2018	313,216
2019	323,517
2020	334,156
2021	<u>313,734</u>
	<u>\$1,587,590</u>

**ECKERD KIDS**  
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**12. Net Assets**

Unrestricted Designated Net Assets

Unrestricted designated net assets at June 30, 2016 and 2015 consist of the following:

	<u>2016</u>	<u>2015</u>
Endowment designated for future use	\$4,404,066	\$4,375,871

Temporarily Restricted Net Assets

Temporarily restricted net assets at June 30, 2016 and 2015 consist of the following:

	<u>2016</u>	<u>2015</u>
Donor Restricted for Purpose:		
Scholarship	\$ 105,252	\$ 102,288
Program/Staff Growth and Transformation	110,481	302,176
Resource Room	-	69,185
Program Activities	1,424,724	1,000,595
Restricted for Time	<u>214,889</u>	<u>401,544</u>
	<u>\$1,855,346</u>	<u>\$1,875,788</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 balance at June 30, 2016 and 2015 consists of the following:

	<u>2016</u>	<u>2015</u>
National Foundation for Youth	\$21,005,994	\$21,486,543
Richard J. Ross Trust	<u>1,608,137</u>	<u>1,611,310</u>
	<u>\$22,614,131</u>	<u>\$23,097,853</u>

**ECKERD KIDS**  
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**13. Employee Benefit Plans**

Flexible Spending Plan - Effective January 1, 1993, Eckerd Kids 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.

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

Defined Contribution Benefit Plans - On July 1, 1993, Eckerd Kids adopted a defined contribution pension plan covering substantially all full-time employees. For 2015, employer contributions are made at the rate of 5% of eligible employees' compensation and totaled \$825,759. For 2016, employer contributions were made at the rate of 2% of eligible employees' compensation plus a 50% match on the employees contribution to a maximum amount of 3%. The employer contributions for 2016 totaled \$501,836.

Paxen sponsors a defined contribution pension plan, pursuant to provisions outlined by the Internal Revenue Code section 401(k) for employees who meet certain eligibility requirements. The Organization has the option to make discretionary matching contributions to the plan. The Organization made a one-time matching contribution of \$2,285 for the year ended June 30, 2016 and no contributions were made for the five months ended June 30, 2015.

Caring for Children sponsors a defined contribution pension plan, pursuant to provisions outlined by the Internal Revenue Code section 401(k) for employees who meet certain eligibility requirements. The Organization elected to suspend contributions to this plan in October 2008. No contributions were made for the year ended June 30, 2016 and not contributions were made for the ten months ended June 30, 2015.

Deferred Compensation Plan - Effective July 1, 2009, Eckerd Kids 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.

**ECKERD KIDS**  
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**14. Lease Commitments**

The Organization leases certain facilities and equipment under cancelable and non-cancelable operating leases. The leases require various monthly payments and expire through 2023. Future minimum annual rental payments on non-cancelable operating leases as of June 30, 2016 are summarized as follows:

<u>Year</u>	<u>Amount</u>
2017	\$ 2,431,655
2018	1,823,431
2019	1,694,307
2020	1,052,986
2021	801,193
Thereafter	<u>1,674,090</u>
	<u>\$ 9,477,662</u>

**15. Insurance Coverage**

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

Health Insurance - For the years ended June 30, 2016 and 2015, health insurance expense was \$4,486,395 and \$4,033,541, respectively.

Workers Compensation – Eckerd Kids has two policies to cover workers’ compensation for all states. Eckerd Kids pays a deductible up to \$350,000 per occurrence. Eckerd Kids is insured by an outside agency for any claims in excess of these amounts. At June 30, 2016 and 2015, Eckerd Kids had an accumulated reserve (liability) of \$535,388 and \$168,678, respectively, to cover any outstanding claims related to workers compensation. There is one letter of credit for \$1,650,000 at June 30, 2016, required by the insurance agent to help insure payment of all claims. Management believes sufficient reserves have been established at June 30, 2016.

Cyber Liability – Eckerd Kids 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 \$10,000.

**ECKERD KIDS**  
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**15. Insurance Coverage (continued)**

Employment Practices/Directors & Officers Liability – This policy has a \$6,000,000 limit and \$12,000,000 aggregate with a \$50,000 deductible for Directors & Officers claims and a \$50,000 deductible for Employment Practices claims.

General Liability – Eckerd Kids 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 Kids 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.

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

**16. Related Party**

Eckerd Kids received contributions totaling \$445,902 and \$393,248 from board members during the years ended June 30, 2016 and 2015, respectively.

**17. 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, 2016, no reserve for uncollectible accounts was considered necessary. The following is the estimated concentration of revenue and receivables for the years ended June 30, 2016 and 2015:

	<u>2016</u>		<u>2015</u>	
	<u>Revenue</u>	<u>Receivable</u>	<u>Revenue</u>	<u>Receivable</u>
Federal Sources	44%	13%	43%	27%
State Sources	<u>56%</u>	<u>87%</u>	<u>57%</u>	<u>73%</u>
	<u>100%</u>	<u>100%</u>	<u>100%</u>	<u>100%</u>

Paxen has a significant portion of their revenue derived from contract with various agencies who receiving funding from federal and state governments. During the five months ended June 30, 2015 and year ended June 30, 2016, approximately 30% and 43%, respectively, of the Organization's revenues were derived from contracts with two of these agencies. Accounts receivable with these customers were approximately 37% and 10% at June 30, 2016 and 2015, respectively.

**ECKERD KIDS**  
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**17. Credit Policy and Concentration of Credit Risk (continued)**

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, 2016 and 2015, Eckerd and Paxen held approximately \$20,043,067 and 19,345,059, 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.

**18. Endowments**

Eckerd Kids' 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 Kids' 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 Kids 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.

**ECKERD KIDS**  
**NOTES TO FINANCIAL STATEMENTS**  
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**18. Endowments (continued)**

Endowment net asset composition by type of fund at June 30, 2016 and 2015:

	<u>2016</u>			<u>2015</u>		
	<u>Unrestricted</u>	<u>Permanently Restricted</u>	<u>Total</u>	<u>Unrestricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Donor restricted	\$ -	\$22,614,131	\$22,614,131	\$ -	\$23,097,853	\$23,097,853
Board designated	4,404,066	-	4,404,066	4,375,871	-	4,375,871
	<u>\$4,404,066</u>	<u>\$22,614,131</u>	<u>\$27,018,197</u>	<u>\$4,375,871</u>	<u>\$23,097,853</u>	<u>\$27,473,724</u>

Changes in the endowment net assets for the years ended June 30, 2016 and 2015:

	<u>2016</u>			<u>2015</u>		
	<u>Unrestricted</u>	<u>Permanently Restricted</u>	<u>Total</u>	<u>Unrestricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Endowment net assets, beginning of year	\$4,375,871	\$23,097,853	\$27,473,724	\$3,207,356	\$23,424,097	\$26,631,453
Investment income	79,233	-	79,233	93,897	-	93,897
Payments (fees, tax, distributions)	(26,224)	-	(26,224)	(205,036)	-	(205,036)
Transfer	85,786	-	85,786	1,119,400	-	1,119,400
Unrealized gain (loss)	(110,600)	-	(110,600)	160,254	-	160,254
Change in beneficial interest in trusts	-	(483,722)	(483,722)	-	(326,244)	(326,244)
Endowment net assets, end of year	<u>\$4,404,066</u>	<u>\$22,614,131</u>	<u>\$27,018,197</u>	<u>\$4,375,871</u>	<u>\$23,097,853</u>	<u>\$27,473,724</u>

**ECKERD KIDS**  
**NOTES TO FINANCIAL STATEMENTS**  
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**19. Notes Receivable**

The Organization is holding the notes for the sales of three properties. The following is the details and outstanding balance at June 30, 2016 and 2015:

	<u>2016</u>	<u>2015</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%.	\$1,132,611	\$1,112,107
Benson – The interest rate on the note is 3%. Principal payments of \$100,000 are due annually at June 30 <sup>th</sup> . This note was paid in full during the year ended June 30, 2016.	-	317,488
Asheville – The interest rate on the note is 7.5%. Monthly payments of \$1,980 consist of both principal and interest. The final balloon payment was due in April 2016 but was extended. The note was paid off in September 2016.	247,159	250,961
Total	\$1,379,770	\$1,680,556

At June 30, 2016 and 2015, the notes were considered collectible so no reserve was necessary. There is no allowance for credit losses.

**20. 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 Kids has complied with all provisions of the grants and that such contingency is remote.

Eckerd Kids 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, 2016 and 2015.

**ECKERD KIDS**  
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**June 30, 2016**

**21. 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 Kids also reviews the quarterly investment statements and provides input as needed. For the years ended June 30, 2016 and 2015, NFY provided funding of \$2,655,489 and \$1,692,455, respectively.

**22. Acquisition – Paxen**

On January 31, 2015, Eckerd Kids entered into an Acquisition Agreement (“Paxen Agreement”) with Paxen, LLC (“Paxen”), in order to provide Eckerd Kids with expanded capabilities to serve its constituent base. Under the terms of the Paxen Agreement, Eckerd Kids acquired all assets and assumed certain liabilities of Paxen for no consideration. The premium paid for the business in excess of fair value of the assets acquired was due to the consistent historical federal and state grants revenue and net income of Paxen.

The results of Paxen’s operations have been included in the financial statements since the acquisition date of January 31, 2015. The purchase price was allocated to the fair value of the assets acquired and liabilities assumed as follows:

**Assets Acquired:**

Cash	\$ 302,267
Accounts Receivable	1,448,933
Prepaid Expenses	45,689
Property and Equipment	12,300
Deposits	37,037
Pre-contract Costs	163,010
Loan Costs	32,178

**Liabilities Assumed:**

Line of Credit	(1,021,224)
Accounts Payable	(138,698)
Accrued Expenses	(279,103)
Notes Payable	<u>(1,511,683)</u>

**Net Assets Acquired** (909,294)

**Goodwill Recognized in Acquisition** 909,294

**Consideration Transferred** \$ 0

**ECKERD KIDS**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2016**

**23. Acquisition – Caring for Children**

On August 31, 2014, Eckerd acquired controlling interest in Caring for Children (“CFC”), through a mutually agreed upon affiliation agreement between the two parties whereby Eckerd became the sole member of CFC. Eckerd Kids previously had no affiliation with CFC. Both organizations serve similar constituents and the synergy of both organizations is expected to further the needs of the population they serve.

No consideration was exchanged as part of the acquisition. Because the transaction resulted in assets being received in excess of liabilities assumed, Eckerd Kids has recognized a contribution in its statement of activities for the year ending June 30, 2015.

The acquired assets and liabilities assumed have been recorded at their estimated fair values at the date of acquisition and approximate the following:

**Assets Acquired:**

Cash	\$ 46,211
Accounts Receivable	258,480
Prepaid Expenses	9,068
Property and Equipment	1,132,106
Other Assets	13,874
Notes Receivable	254,128
Accreditation Costs	10,253
Beneficial Interest in Endowment	35,524

**Liabilities Assumed:**

Accounts Payable	(59,914)
Accrued Expenses	(89,569)
Notes Payable	<u>(312,274)</u>

**Contribution received in acquisition** **\$ 1,297,887**

Due to the restrictions on net assets at the time of acquisition, \$477,754 of the contribution was recorded as temporarily restricted, with the remaining contribution unrestricted.

**ECKERD KIDS**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2016**

**24. Acquisition – Henkels and McCoy**

On April 1, 2016, Eckerd Kids acquired substantially all of the assets of Henkels and McCoy, Inc.'s Training Services Group, through a mutually agreed upon asset contribution agreement. Eckerd kids previously had no affiliation with Henkels and McCoy, Inc. Henkels & McCoy, Inc.'s Training Services Group and Eckerd Kids both organizations serve similar constituents and the synergy of both organizations is expected to further the needs of the population they serve.

No consideration was exchanged as part of the acquisition. Because the transaction resulted in assets being received in excess of liabilities assumed (none), Eckerd Kids has recognized a contribution in its statement of activities for the year ending June 30, 2016.

The acquired assets have been recorded at their estimated fair values at the date of acquisition and approximate the following:

**Assets Acquired:**

Deposits	\$ 25,284
Property and Equipment	159,037
Other Assets (Intangible Asset)	<u>3,409,178</u>

**Contribution received in acquisition** \$3,593,499



# Single Audit Report

June 30, 2016

The first name in second chances.<sup>SM</sup>

**Eckerd**  
**Kids**

ECKERD YOUTH ALTERNATIVES, INC.

SINGLE AUDIT REPORTS

June 30, 2016

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**INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING  
AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL  
STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS**

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

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the consolidated financial statements of Eckerd Youth Alternatives, Inc. (d/b/a "Eckerd Kids"), which comprise the consolidated statement of financial position as of June 30, 2016, and the related consolidated statements of activities, functional expenses, and cash flows for the year then ended, and the related notes to the consolidated financial statements, and have issued our report thereon dated December 15, 2016. Our report includes a reference to other auditors who audited the financial statements of Paxen, LLC, as described in our report on Eckerd Kids' financial statements. This report does not include the results of the other auditors' testing of internal control over financial reporting or compliance and other matters that are reported on separately by those auditors. Our report includes a reference to other auditors who audited the financial statements of CARING for Children, Inc., as described in our report on Eckerd Kids' financial statements. The financial statements of CARING for Children, Inc. were not audited in accordance with *Government Auditing Standards*.

**Internal Control Over Financial Reporting**

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

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

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(Continued)

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

### **Compliance and Other Matters**

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

### **Purpose of this Report**

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



Crowe Horwath LLP

Tampa, Florida  
December 15, 2016

**INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR EACH MAJOR FEDERAL PROGRAM  
AND STATE FINANCIAL ASSISTANCE PROJECT; REPORT ON INTERNAL CONTROL OVER  
COMPLIANCE; AND REPORT ON THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
AND STATE FINANCIAL ASSISTANCE REQUIRED BY UNIFORM GUIDANCE AND  
CHAPTER 10.650 RULES OF THE AUDITOR GENERAL**

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

**Report on Compliance for Each Major Federal Program and State Financial Assistance Project**

We have audited Eckerd Youth Alternatives, Inc.'s (d/b/a "Eckerd Kids") compliance with the types of compliance requirements described in the *OMB Compliance Supplement* and the requirements described in the *Department of Financial Services' State Projects Compliance Supplement*, that could have a direct and material effect on each of Eckerd Kids' major federal programs and state financial assistance projects for the year ended June 30, 2016. Eckerd Kids' major federal programs and state financial assistance projects are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Eckerd Kids' basic consolidated financial statements include the operations of Paxen, LLC, which received \$4,288,396 in federal awards and \$853,813 in state financial assistance, which is not included in the schedule of expenditures of federal awards and state financial assistance during the year ended June 30, 2016. Our audit, described below, did not include the operations of Paxen, LLC because the organization's expenditures were subject to audits performed by other auditors.

***Management's Responsibility***

Management is responsible for compliance with the requirements of federal and state statutes, regulations, and the terms and conditions of its federal and state awards applicable to its federal programs and state financial assistance projects.

***Auditor's Responsibility***

Our responsibility is to express an opinion on compliance for each of Eckerd Kids' major federal programs and state financial assistance projects based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the audit requirements of Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance) and Chapter 10.650, *Rules of the Auditor General*. Those standards, the Uniform Guidance, and Chapter 10.650, *Rules of the Auditor General*, require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program or state financial assistance project occurred. An audit includes examining, on a test basis, evidence about Eckerd Kids' compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

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(Continued)

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program and state financial assistance project. However, our audit does not provide a legal determination of Eckerd Kids' compliance.

### ***Opinion on Each Major Federal Program and State Financial Assistance Project***

In our opinion, Eckerd Kids complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs and state financial assistance project for the year ended June 30, 2016.

### **Report on Internal Control Over Compliance**

Management of Eckerd Kids is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered Eckerd Kids' internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program and state financial assistance project to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and state financial assistance project and to test and report on internal control over compliance in accordance with the Uniform Guidance and Chapter 10.650, *Rules of the Auditor General*, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of Eckerd Kids' internal control over compliance.

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

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. We identified certain deficiencies in internal control over compliance, as described in the accompanying schedule of findings and questioned costs as items 2016-001 and 2016-002, that we consider to be material weaknesses.

Eckerd Kids' response to the internal control over compliance findings identified in our audit are described in the accompanying schedule of findings and questioned costs and corrective action plan. Eckerd Kids' response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the Uniform Guidance and Chapter 10.650, *Rules of the Auditor General*. Accordingly, this report is not suitable for any other purpose.

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(Continued)

**Report on Schedule of Expenditures of Federal Awards and State Financial Assistance Required by Uniform Guidance and Chapter 10.650, Rules of the Auditor General**

We have audited the consolidated financial statements of Eckerd Kids as of and for the year ended June 30, 2016, and have issued our report thereon dated December 15, 2016, which contained an unmodified opinion on those consolidated financial statements. Our audit was conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The accompanying schedule of expenditures of federal awards and state financial assistance is presented for purposes of additional analysis as required by the Uniform Guidance and Chapter 10.650, *Rules of the Auditor General* and is not a required part of the consolidated financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the consolidated financial statements. The information has been subjected to the auditing procedures applied in the audit of the consolidated financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the consolidated financial statements or to the consolidated financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the schedule of expenditure of federal awards and state financial assistance is fairly stated in all material respects in relation to the consolidated financial statements as a whole.



Crowe Horwath LLP

Tampa, Florida  
December 15, 2015

ECKERD YOUTH ALTERNATIVES, INC.  
SCHEDULE OF EXPENDITURES OF  
FEDERAL AWARDS AND STATE FINANCIAL ASSISTANCE  
Year Ended June 30, 2016

Federal Grantor/Program Title/ Pass through Grantor	Federal CFDA Number	Contract Number	Federal Expenditures	Amount Provided to Subrecipients
<b>U.S. Department of Agriculture</b>				
<b>Child Nutrition Cluster</b>				
<b>School Breakfast Program</b>				
Passed through State of Florida Department of Education		01-0112	\$ 62,313	\$ -
Passed through State of North Carolina Department of Public Instruction, Division of Child Nutrition		1142	39,438	-
<b>Total School Breakfast Program</b>	10.553		<u>101,751</u>	<u>-</u>
<b>School Lunch Program</b>				
Passed through State of Florida Department of Education		01-0112	98,160	-
Passed through State of North Carolina Department of Public Instruction, Division of Child Nutrition		1142	61,631	-
<b>Total School Lunch Program</b>	10.555		<u>159,791</u>	<u>-</u>
<b>Afterschool Snack Program</b>				
Passed through State of Florida Department of Education		01-0112	17,574	-
Passed through State of North Carolina Department of Public Instruction, Division of Child Nutrition		1142	13,074	-
<b>Total Afterschool Snack Program</b>	10.555		<u>30,648</u>	<u>-</u>
<b>Total Child Nutrition Cluster</b>			<u>292,190</u>	<u>-</u>
<b>Commodity Food Program</b>				
Received through State of Florida Department of Agriculture and Consumer Services		N/A	10,995	-
Received through State of North Carolina Department of Agriculture		N/A	5,790	-
<b>Total Commodity Food Program</b>	10.569		<u>16,785</u>	<u>-</u>
<b>Total U.S. Department of Agriculture</b>			<u>308,975</u>	<u>-</u>

(Continued)

ECKERD YOUTH ALTERNATIVES, INC.  
SCHEDULE OF EXPENDITURES OF  
FEDERAL AWARDS AND STATE FINANCIAL ASSISTANCE  
Year Ended June 30, 2016

Federal Grantor/Program Title/ Pass through Grantor	Federal CFDA Number	Contract Number	Federal Expenditures	Amount Provided to Subrecipients
<b>U.S. Department of Education</b>				
<b>IDEA (Chapter I)</b>				
Passed through State of Florida - Pinellas County School Board		N/A	\$ 22,633	\$ -
Passed through State of North Carolina		N/A	4,000	-
<b>Total IDEA (Chapter I)</b>	84.027		<u>26,633</u>	<u>-</u>
<b>Title I (Chapter I)</b>				
Passed through State of Florida - Pinellas County School Board		N/A	82,228	-
Passed through State of North Carolina		N/A	21,676	-
<b>Total Title I (Chapter I)</b>	84.013		<u>103,904</u>	<u>-</u>
<b>Total U.S. Department of Education</b>			<u>130,537</u>	<u>-</u>
<b>U.S. Department of Health and Human Services</b>				
<b>Transitional Living Program</b>				
Transitional Living Program				
<b>Total Transitional Living Program</b>	93.500		<u>365,087</u>	<u>-</u>
			<u>365,087</u>	<u>-</u>
<b>Promoting Safe and Stable Families</b>				
Passed through State of Florida Department of Children and Families		QJ511	920,174	920,174
Passed through Brevard Family Partnership		SVP1501	593	-
Passed through State of North Carolina Department of Health and Human Services		32023	508,027	-
Passed through State of North Carolina Department of Health and Human Services		32170	181,818	-
Passed through State of North Carolina Department of Health and Human Services		32084	108,568	-
Passed through State of Florida Department of Children and Families		QJ3E0	1,135,781	736,588
<b>Total Promoting Safe and Stable Families</b>	93.556		<u>2,854,961</u>	<u>1,656,762</u>

(Continued)

ECKERD YOUTH ALTERNATIVES, INC.  
 SCHEDULE OF EXPENDITURES OF  
 FEDERAL AWARDS AND STATE FINANCIAL ASSISTANCE  
 Year Ended June 30, 2016

Federal Grantor/Program Title/ Pass through Grantor	Federal CFDA Number	Contract Number	Federal Expenditures	Amount Provided to Subrecipients
<b>Temporary Assistance for Needy Families</b>				
Passed through State of Pennsylvania Delaware County Workforce Development Board		HMC-018-15YT	\$ 8,215	\$ -
Passed through State of Pennsylvania Delaware County Workforce Development Board		HMC-020-15Y	34,909	-
Passed through State of Pennsylvania Delaware County Workforce Development Board		HMC-019-15YT	21,251	-
Passed through State of Pennsylvania Delaware County Workforce Development Board		P14-561-180-14-3361-02	70,915	-
Passed through State of Ohio Franklin County Board of County Commissioners		25-16-1514	36,858	-
Passed through State of Ohio Franklin County Board of County Commissioners		25-15-4002	16,361	-
Passed through State of Florida Career Source Heartland		AA-26773-15-55-A-12	9,472	-
Passed through State of Florida Department of Children and Families		QJ511	4,403,916	2,579,487
Passed through State of Florida Department of Children and Families		QJ3E0	5,635,903	3,965,464
Passed through Brevard Family Partnership		SVP1501	20,759	-
<b>Total Temporary Assistance for Needy Families</b>	93.558		<u>10,258,559</u>	<u>6,544,951</u>
<b>Grants to States for Access and Visitation Programs</b>				
Passed through Brevard Family Partnership		SVP1501	8,799	-
Passed through State of Florida Department of Children and Families		QJ511	40,653	40,653
<b>Total Grants to States for Access and Visitation Programs</b>	93.597		<u>49,452</u>	<u>40,653</u>
<b>Chafee Education and Training Vouchers Program</b>				
Passed through State of Florida Department of Children and Families		QJ511	109,080	-
Passed through State of Florida Department of Children and Families		QJ3E0	238,792	-
<b>Total Chafee Education and Training Vouchers Program</b>	93.599		<u>347,872</u>	<u>-</u>

(Continued)

ECKERD YOUTH ALTERNATIVES, INC.  
SCHEDULE OF EXPENDITURES OF  
FEDERAL AWARDS AND STATE FINANCIAL ASSISTANCE  
Year Ended June 30, 2016

Federal Grantor/Program Title/ Pass through Grantor	Federal CFDA Number	Contract Number	Federal Expenditures	Amount Provided to Subrecipients
<b>Headstart</b>				
Early Headstart Program		04HP0025/01	\$ 1,503,216	\$ -
<b>Total Headstart</b>	93.600		<u>1,503,216</u>	<u>-</u>
<b>Adoption Incentive Payments</b>				
Passed through State of Florida Department of Children and Families		QJ511	1,347,082	149
Passed through State of Florida Department of Children and Families		QJ3E0	911,777	-
<b>Total Adoption Incentive Payments</b>	93.603		<u>2,258,859</u>	<u>149</u>
<b>Children's Justice Grants</b>				
Passed through State of Illinois Department of Children and Family Services		544508	146,771	-
<b>Total Children's Justice Grants</b>	93.643		<u>146,771</u>	<u>-</u>
<b>Welfare Services - State Grants</b>				
Passed through State of Florida Department of Children and Families		QJ511	1,219,601	744,830
Passed through Brevard Family Partnership		SVP1501	7,599	-
Passed through State of Florida Department of Children and Families		QJ3E0	1,544,419	1,101,260
<b>Total Welfare Services - State Grants</b>	93.645*		<u>2,771,619</u>	<u>1,846,090</u>
<b>Foster Care Title IV E</b>				
Passed through Brevard Family Partnership		SVP1501	\$ 40,497	\$ -
Passed through State of Vermont Department for Children and Families		30373	23,588	-
Passed through State of Florida Department of Children and Families		QJ511	12,626,071	5,949,325
Passed through State of Florida Department of Children and Families		QJ3E0	14,638,619	7,882,594
<b>Total Foster Care Title IV E</b>	93.658*		<u>27,328,775</u>	<u>13,831,919</u>

(Continued)

ECKERD YOUTH ALTERNATIVES, INC.  
SCHEDULE OF EXPENDITURES OF  
FEDERAL AWARDS AND STATE FINANCIAL ASSISTANCE  
Year Ended June 30, 2016

Federal Grantor/Program Title/ Pass through Grantor	Federal CFDA Number	Contract Number	Federal Expenditures	Amount Provided to Subrecipients
<b>Adoption Assistance</b>				
Passed through Brevard Family Partnership		SVP1501	\$ 9,570	\$ -
Passed through State of Florida Department of Children and Families		QJ511	8,596,399	628,888
Passed through State of Florida Department of Children and Families		QJ3E0	<u>10,230,623</u>	<u>1,479,089</u>
<b>Total Adoption Assistance</b>	93.659*		<u>18,836,592</u>	<u>2,107,977</u>
<b>Social Services Block Grant</b>				
Passed through State of Florida Department of Children and Families		QJ511	3,617,105	1,671,371
Passed through State of Florida Department of Children and Families		QJ3E0	<u>3,739,495</u>	<u>1,735,528</u>
<b>Total Social Services Block Grant</b>	93.667		<u>7,356,600</u>	<u>3,406,899</u>
<b>Administration for Children, Youth and Families - Child</b>				
Passed through State of Florida Department of Children and Families		QJ511	119,840	93,074
Passed through State of Florida Department of Children and Families		QJ3E0	<u>111,282</u>	<u>85,939</u>
<b>Total Administration for Children, Youth and Families - Child</b>	93.669		<u>231,122</u>	<u>179,013</u>
<b>Independent Living</b>				
Passed through State of Florida Department of Children and Families		QJ511	262,515	-
Passed through State of Florida Department of Children and Families		QJ3E0	<u>359,230</u>	<u>191,468</u>
<b>Total Independent Living</b>	93.674		<u>621,745</u>	<u>191,468</u>
<b>Medical Assistance Program</b>				
Passed through State of Florida Department of Children and Families		QJ511	8,486	4,459
Passed through State of Florida Department of Children and Families		QJ3E0	<u>34,387</u>	<u>12,108</u>
<b>Total Medical Assistance Program</b>	93.778		<u>42,873</u>	<u>16,567</u>
<b>Substance Abuse</b>				
Passed through Lutheran Services		LS027	<u>330,868</u>	-
<b>Total Substance Abuse</b>	93.959		<u>330,868</u>	-
<b>Total U.S. Department of Health and Human Services</b>			<u>75,304,971</u>	<u>29,822,448</u>

(Continued)

ECKERD YOUTH ALTERNATIVES, INC.  
 SCHEDULE OF EXPENDITURES OF  
 FEDERAL AWARDS AND STATE FINANCIAL ASSISTANCE  
 Year Ended June 30, 2016

Federal Grantor/Program Title/ Pass through Grantor	Federal CFDA Number	Contract Number	Federal Expenditures	Amount Provided to Subrecipients
<b>U.S. Department of Labor</b>				
<b>Workforce Innovatoin and Opportunity Act</b>				
Passed through State of South Carolina Appalachian Council on Government		15A295H1/15D295H1	\$ 163,670	\$ -
Passed through State of South Carolina BCD Council of Governments			177,501	-
Passed through State of South Carolina Appalachian Council on Government		15Y495H1	158,120	-
Passed through State of Florida Workforce Development Board of Treasure Coast			200,457	-
Passed through State of Florida Citrus Levy Marion Regional Workforce Development Board		15-01PY2015	178,506	-
Passed through State of New Jersey Mercer County		P2014-379	35,264	-
Passed through State of Pennsylvania South Central Workforce Investment Board		P15-561-180-15-3301-01	17,613	-
Passed through State of Pennsylvania First Coast Workforce Development		AA-25347-14-55-A-12, AA- 26773-15-55-A-12, G-	213,057	-
Passed through State of New Jersey Monmouth County		WFNJ 15-03	31,793	-
Passed through State of Ohio Central Ohio Worforce Investment Corporation		15OS1A5438	83,462	-
Passed through State of Pennsylvania South Central Workforce Investment Board		P15-561-180-15-3301-01	74,753	-
Passed through State of New Jersey Ocean County		15-510-640-F006	38,667	-
Passed through State of Florida Career Source Heartland		AA-26773-15-55-A-12	43,152	-
Passed through State of New Jersey Ocean County		15-220-510-640-F006	26,513	-
Passed through State of South Carolina Santee Lynches Workforce Development Board		153610PYC	167,145	-
Passed through State of Pennsylvania Lehigh Valley Workforce Investment Board			63,971	-
Passed through State of Pennsylvania Buck County Workforce Investment Board		2013-6115-0202	26,271	-

(Continued)

ECKERD YOUTH ALTERNATIVES, INC.  
 SCHEDULE OF EXPENDITURES OF  
 FEDERAL AWARDS AND STATE FINANCIAL ASSISTANCE  
 Year Ended June 30, 2016

Federal Grantor/Program Title/ Pass through Grantor	Federal CFDA Number	Contract Number	Federal Expenditures	Amount Provided to Subrecipients
Passed through State of Maryland Susquehanna Workforce Network			41,705	-
Passed through State of Maryland Susquehanna Workforce Network			5,873	-
Passed through State of Florida Citrus Levy Marion Regional Workforce Development Board		15-01 PY2015	48,853	-
Passed through State of South Carolina SC Appalachian Council on Government		15A995H1/15D995H1	19,769	-
<b>Total Workforce Innovatoin and Opportunity Act</b>	17.259		<u>1,816,115</u>	<u>-</u>
<b>Total U.S. Department of Labor</b>			<u>1,816,115</u>	<u>-</u>
<b>Erate</b>	84.UNKNOWN		<u>50,990</u>	<u>-</u>
<b>Total Federal Awards</b>			<u>\$ 77,611,588</u>	<u>\$ 29,822,448</u>

\* major federal program

(Continued)

ECKERD YOUTH ALTERNATIVES, INC.  
SCHEDULE OF EXPENDITURES OF  
FEDERAL AWARDS AND STATE FINANCIAL ASSISTANCE  
Year Ended June 30, 2016

State Agency/Program Title/Contract Description	State CSFA Number	Contract Number	State Expenditures	Amount Provided to Subrecipients
<b>Department of Children and Families</b>				
Out of Home Supports				
Community Based Care Supports		ECA-C6-EAA-ECK-FY16	\$ 123,565	\$ -
Community Based Care Supports		ECA-C13-EAA-ECK-FY16	250,873	-
Community Based Care Supports		QJ511	3,491,228	1,677,782
Community Based Care Supports		QJ3E0	2,865,235	859,562
	60.074**		<u>6,730,901</u>	<u>2,537,344</u>
In Home Supports				
Community Based Care Supports		QJ511	865,950	211,346
Community Based Care Supports		QJ3E0	694,350	559,746
	60.075		<u>1,560,300</u>	<u>771,092</u>
Independent Living				
Community Based Care Supports		QJ511	785,024	-
Community Based Care Supports		QJ3E0	795,966	152,770
	60.112		<u>1,580,990</u>	<u>152,770</u>
Sexually Exploited Children				
Community Based Care Supports		QJ511	106,624	18,576
Community Based Care Supports		QJ3E0	164,874	123,300
	60.138**		<u>271,498</u>	<u>141,876</u>
<b>Total Department of Children and Families</b>			<u>10,143,689</u>	<u>3,603,082</u>
<b>Total State Financial Assistance</b>			<u>\$ 10,143,689</u>	<u>\$ 3,603,082</u>

\*\* major state projects

See accompanying notes to the  
Schedule of Expenditures of Federal Awards and State Financial Assistance.

ECKERD YOUTH ALTERNATIVES, INC.  
NOTES TO THE SCHEDULE OF EXPENDITURES OF  
FEDERAL AWARDS AND STATE FINANCIAL ASSISTANCE  
Year Ended June 30, 2016

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**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

The accompanying schedule of expenditures of federal awards and state financial assistance includes the federal and state grant activity of Eckerd Youth Alternatives, Inc. ("Eckerd Kids") and is presented on the accrual basis of accounting. The information in this schedule is presented in accordance with accounting principles generally accepted in the United States of America as applicable to nonprofit organizations and the provisions of Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance) and Chapter 10.650, *Rules of the Auditor General of the State of Florida*.

Expenditures federal awards of BBBSA are determined using the cost accounting principles and procedures set forth in the Uniform Guidance. Under these cost principles, certain expenditures are not allowable or are limited as to reimbursement.

Eckerd Youth Alternatives, Inc. is the registered legal name with the State of Florida. However, the organization began doing business (d/b/a) as Eckerd Kids in December 2015.

Eckerd Kids has elected not to use the 10-percent de minimis indirect cost rate allowed under the Uniform Guidance.

**NOTE 2 - CONTINGENCIES**

Expenditures incurred by Eckerd and the subgrantees associated with the execution of various grants are subject to audit and possible disallowance by the grantor agency. Eckerd would be held responsible for recovery (reimbursement to the grantor agency) of disallowed amounts incurred by a subgrantee if the subgrantee were not able to do so. Management believes that if audited, any adjustment for disallowed expenses would be immaterial in amount.

**NOTE 3 - NON-CASH ASSISTANCE/FEDERAL INSURANCE**

Eckerd had no non-cash assistance or Federal Insurance in force during the fiscal year.

ECKERD YOUTH ALTERNATIVES, INC.  
 SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
 Year Ended June 30, 2016

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**Financial Statements**

Type of report the auditor issued on whether the financial statements audited were prepared in accordance with GAAP: Unmodified

Internal control over financial reporting:

Material weakness(es) identified? \_\_\_\_\_ Yes   X   No

Significant deficiency(ies) identified? \_\_\_\_\_ Yes   X   None Reported

Noncompliance material to financial statements noted? \_\_\_\_\_ Yes   X   No

**Federal Awards and State Financial Assistance**

Internal Control over major programs:

Material weakness(es) identified?   X   Yes \_\_\_\_\_ No

Significant deficiency(ies) identified? \_\_\_\_\_ Yes   X   None Reported

Type of auditor's report issued on compliance for major federal programs: Unmodified

Any audit findings disclosed that are required to be reported in accordance with 2 CFR 200.516(a)?   X   Yes \_\_\_\_\_ No

Identification of major federal programs:

<u>CFDA Numbers</u>	<u>Name of Federal Program or Cluster</u>
93.645	Stephannie Tubbs Jones Child Welfare Program
93.658	Foster Care Title IVE
93.659	Adoption Assistance

Dollar threshold used to distinguish between Type A and Type B programs: \$2,328,348

Auditee qualified as low-risk auditee? \_\_\_\_\_ Yes   X   No

Identification of major state financial assistance projects:

<u>CSFA Numbers</u>	<u>Name of State Project or Cluster</u>
60.074	Community-Based Care – Out-of-Home Supports
60.138	Community-Based Care – Sexually Exploited Children

Dollar threshold used to distinguish between Type A and Type B programs: \$304,311

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(Continued)

ECKERD YOUTH ALTERNATIVES, INC.  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
Year Ended June 30, 2016

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**SECTION II - FINANCIAL STATEMENT FINDINGS**

No items noted.

**SECTION III - FEDERAL AWARD FINDINGS AND QUESTIONED COSTS**

**Finding 2016-001: Eligibility – Material Weakness**

**Impacted Program:**

Federal Agency: Department of Health and Human Services  
Pass-through Agency: Florida Department of Children and Families  
Program: Foster Care  
CFDA Number: 93.658

**Criteria:**

The Uniform Guidance 2 CFR 200.303 requires non-federal entities receiving federal awards to establish and maintain internal controls designed to reasonably ensure compliance with federal laws, regulations, and program compliance requirements.

**Condition:**

The Organization does not have consistent documented review processes between their community alternative jurisdictions.

**Questioned Costs:**

None

**Context:**

Documentation supporting that management performs quality controls review processes on periodic basis was request from both community alternative jurisdictions that Eckerd Kids administers related to the eligibility of children to participate in the program. One jurisdiction was able to provide the documentation for the 3 months sampled. The other jurisdiction was not able to provide any documentation to support the quality control procedures related to child eligibility.

**Effect:**

Eligibility determinations could be inaccurate.

**Cause:**

One of two jurisdictions has formal documented review processes while the other has no formal policies, procedures, or documentation related to their quality control processes over eligibility for individuals.

**Identification as a Repeat Finding:**

This finding is a repeat of finding 2015-001 in the prior year.

**Recommendations:**

Crowe recommends that both jurisdictions utilize the formal review policies and process that have been developed.

**Management's View and Corrective Action Plan:**

Eckerd Kids agrees with the comment and will implement a formal review process in both locations.

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(Continued)

**SECTION IV - STATE FINANCIAL ASSISTANCE FINDINGS AND QUESTIONED COSTS**

**Finding 2016-002: Eligibility – Material Weakness**

**Impacted Program:**

State Agency: Department of Children and Families  
Program: Community Based Care – Out-Of-Home Supports  
CSFA Number: 60.074

State Agency: Department of Children and Families  
Program: Community Based Care - Sexually Exploited Children (CSEC)  
CSFA Number: 60.138

**Criteria:**

Florida rules require entities receiving state financial assistance to establish and maintain internal controls designed to reasonably ensure compliance with state laws, regulations, and project compliance requirements.

**Condition:**

- A. For Community Based Care – Out-Of-Home Supports, the Organization does not have consistent documented review processes between their community alternative jurisdictions.
- B. During the first half of the fiscal year, there are no formalized quality control processes and procedures in place related to the specific CSEC eligibility requirements.

**Questioned Costs:**

None

**Context:**

- A. Documentation supporting that management performs quality controls review processes on periodic basis was request from both community alternative jurisdictions that Eckerd Kids administers related to the eligibility of children to participate in the program. One jurisdiction was able to provide the documentation for the 3 months sampled. The other jurisdiction was not able to provide any documentation to support the quality control procedures related to child eligibility.
- B. Management discussions verified that prior to Florida law changes in January 12, 2016 when the Human Trafficking Screen Tool was created, there were no documented quality controls for the CSEC eligibility.

**Effect:**

Eligibility determinations could be inaccurate.

**Cause:**

- A. One of two jurisdictions has formal documented review processes while the other has no formal policies, procedures, or documentation related to their quality control processes over eligibility for individuals.
- B. There are no formalized quality control processes and procedures in place related to the specific CSEC eligibility requirements.

**Identification as a Repeat Finding:**

This finding is a repeat of finding 2015-002 in the prior year.

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(Continued)

ECKERD YOUTH ALTERNATIVES, INC.  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
Year Ended June 30, 2016

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**Finding 2016-002: Eligibility – Material Weakness** (Continued)

**Recommendations:**

Crowe recommends the Organization develop and implement quality control processes related to the CSEC program eligibility.

**Management's View and Corrective Action Plan:**

Eckerd Kids agrees with the comment and will implement a formal review process in both locations.

**Prior Year Findings and Questioned Costs**

**Finding 2015-001: Eligibility – Material Weakness**

**Impacted Program:**

Federal Agency: Department of Health and Human Services  
Pass-through Agency: Florida Department of Children and Families  
Program: Foster Care  
CFDA Number: 93.658

**Condition:**

The Organization does not have consistent documented review process between their community alternative jurisdictions.

**Status of Prior Year Finding:**

See current year finding 2016-001.

**Finding 2015-002: Eligibility – Material Weakness**

**Impacted Program:**

State Agency: Department of Children and Families  
Program: Commercial Sexually Exploited Children (CSEC)  
CSFA Number: 60.138

**Condition:**

There are no formalized quality control processes and procedures in place related to the specific CSEC eligibility requirements.

**Status of Prior Year Finding:**

See current year finding 2016-002.