



Audited Financial Statements

June 30, 2018 and 2017

ECKERD CONNECTS

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AUDITED FINANCIAL STATEMENTS



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Independent Auditor's Report on Combined Financial Statements and Supplementary Financial Information

To the Board of Directors
Eckerd Youth Alternatives, Inc.:

Report on the Combined Financial Statements

We have audited the accompanying combined financial statements of Eckerd Youth Alternatives, Inc. (d/b/a Eckerd Connects) and Affiliates (collectively, Eckerd Connects or the "Organization"), which comprise the combined statement of financial position as of June 30, 2018, and the related combined statements of activities, functional expenses, and cash flows for the year then ended, and the related notes to the combined financial statements.

Management's Responsibility for the Combined Financial Statements

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the combined financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the combined 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 combined 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 combined financial statements.



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

Opinion

In our opinion the combined financial statements referred to above present fairly, in all material respects, the financial position of Eckerd Connects as of June 30, 2018 and the changes in their net assets and their cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Supplemental Information

Our audit was conducted for the purpose of forming an opinion on the combined financial statements as a whole. The accompanying combining schedules and the accompanying schedule of expenditures of federal awards and state financial assistance, as required by Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles and Audit Requirements for Federal Awards*, Chapter 10.650, *Rules of the State of Florida Auditor General*, and *North Carolina State Single Audit Implementation Act* are presented for purposes of additional analysis and are not a required part of the combined 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 combined financial statements. The information has been subjected to the auditing procedures applied in the audit of the combined financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the combined financial statements or to the combined financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated, in all material respects, in relation to the combined financial statements as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated December 12, 2018, on our consideration of Eckerd Connects' 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 Connects' internal control over financial reporting and compliance.

Mayer Hoffman McCann P.C.

December 12, 2018
Clearwater, Florida

ECKERD CONNECTS

Combined Statement of Financial Position

June 30, 2018

Assets

Current assets:	
Cash and cash equivalents	\$ 12,108,740
Restricted cash	1,259,463
Accounts receivable	11,886,916
Contributions receivable	1,144,175
Prepaid expenses	<u>1,258,530</u>
Total current assets	27,657,824
Investments	5,234,681
Note receivable	1,112,107
Other assets	637,295
Property and equipment, net	7,664,230
Goodwill	909,293
Other intangible assets	3,007,150
Beneficial interest in perpetual trusts	<u>25,235,416</u>
Total assets	<u>\$ 71,457,996</u>

Liabilities and Net Assets

Current liabilities:	
Short-term note payable	\$ 113,042
Current portion of capital lease obligations	193,214
Current installments of long-term debt	323,476
Accounts payable and accrued expenses	13,853,683
Accrued pension expenses:	
Defined contribution plan	945,627
Deferred compensation plan	<u>244,313</u>
Total current liabilities	15,673,355
Capital lease obligations, less current portion	300,903
Long-term debt, excluding current installments	647,407
Accrued pension expenses - deferred compensation plan	<u>122,139</u>
Total liabilities	<u>16,743,804</u>
Net assets:	
Unrestricted:	
Undesignated	23,531,904
Designated	5,275,015
Temporarily restricted	671,857
Permanently restricted	<u>25,235,416</u>
Total net assets	<u>54,714,192</u>
Total liabilities and net assets	<u>\$ 71,457,996</u>

ECKERD CONNECTS

Combined Statement of Activities

Year Ended June 30, 2018

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Operating support and revenue:				
Program revenues:				
Funding contracts	\$ 220,996,345	-	-	220,996,345
Medicaid and third party insurance	2,432,773	-	-	2,432,773
Contributions	3,261,934	-	-	3,261,934
Interest and dividends, net of fees	178,434	-	-	178,434
Other revenue	511,876	-	-	511,876
Net assets released from restriction:				
Satisfaction of use restrictions	2,036,451	-	-	2,036,451
Expiration of time restrictions	305,277	-	-	305,277
Total operating support and revenue	229,723,090	-	-	229,723,090
Operating expenses:				
Program services	211,048,605	-	-	211,048,605
Supporting services	17,947,651	-	-	17,947,651
Total operating expenses	228,996,256	-	-	228,996,256
Change in net assets from operations	726,834	-	-	726,834
Other changes:				
Unrealized and realized gains on investments	252,881	-	-	252,881
Gain on sale of property and equipment	197,763	-	-	197,763
Restricted grants and contributions	-	793,673	-	793,673
Change in value of beneficial interest in perpetual trusts	-	-	947,490	947,490
Net assets released from restrictions	-	(2,341,728)	-	(2,341,728)
Total other changes	450,644	(1,548,055)	947,490	(149,921)
Change in net assets	1,177,478	(1,548,055)	947,490	576,913
Net assets at beginning of year	27,629,441	2,219,912	24,287,926	54,137,279
Net assets at end of year	\$ 28,806,919	671,857	25,235,416	54,714,192

ECKERD CONNECTS

Combined Statement of Functional Expenses

Year Ended June 30, 2018

	Program Services						Supporting Services			Total Expenses
	Residential Programs	Non-Residential Programs	Lead Agency	Workforce Development	Other Programs	Total	General and Administrative	Fundraising	Total	
Operating expenses:										
Payroll and related expenses	\$ 9,415,172	10,399,835	14,416,861	13,590,713	206,444	48,029,025	8,883,421	444,881	9,328,302	57,357,327
Employee related	79,341	60,163	76,411	33,805	39,617	289,337	43,321	26,201	69,522	358,859
Training	37,700	164,906	77,218	58,241	54,206	392,271	247,888	10,348	258,236	650,507
Supplies and materials	260,104	289,031	186,859	376,088	4,531	1,116,613	106,253	8,343	114,596	1,231,209
Food	481,353	112,497	3,104	14,040	(39)	610,955	256	-	256	611,211
Technology	32,365	60,624	404,511	172,631	149,444	819,575	791,864	29,780	821,644	1,641,219
Travel	60,750	837,004	289,695	343,250	45,757	1,576,456	465,738	25,892	491,630	2,068,086
Vehicle	74,884	252,970	15,250	420	664	344,188	41,414	208	41,622	385,810
Repairs and maintenance	257,154	97,684	103,032	51,184	1,872	510,926	78,374	-	78,374	589,300
Utilities	314,426	76,624	73,816	76,931	24,428	566,225	62,841	-	62,841	629,066
Telephone	116,164	226,158	437,419	223,182	17,736	1,020,659	325,476	2,456	327,932	1,348,591
Depreciation and amortization	570,887	161,443	12,813	-	39,307	784,450	1,083,854	189	1,084,043	1,868,493
Insurance	268,541	331,663	557,921	123,915	19,167	1,301,207	161,311	-	161,311	1,462,518
Professional fees	143,121	1,185,599	41,881	334,692	646,127	2,351,420	2,794,503	124,615	2,919,118	5,270,538
Rent	94,264	813,473	2,316,173	746,420	31,637	4,001,967	198,394	-	198,394	4,200,361
Purchased services	308	4,168,312	127,466,635	250,905	38,518	131,924,678	1,092,701	-	1,092,701	133,017,379
Client related	235,936	985,820	4,312,886	8,105,415	1,185	13,641,242	42,682	-	42,682	13,683,924
Miscellaneous	68,373	723,690	233,952	333,397	407,999	1,767,411	822,238	32,209	854,447	2,621,858
Total operating expenses	\$ 12,510,843	20,947,496	151,026,437	24,835,229	1,728,600	211,048,605	17,242,529	705,122	17,947,651	228,996,256

See accompanying independent auditor's report and notes to combined financial statements.

ECKERD CONNECTS

Combined Statement of Cash Flows

Year Ended June 30, 2018

Cash flows from operating activities:	
Change in net assets	\$ 576,913
Adjustments to reconcile change in net assets to net cash provided by operating activities:	
Depreciation and amortization	1,868,493
Unrealized and realized gains on investments	(252,881)
Gain on sale of property and equipment	(197,763)
Change in value of beneficial interest in perpetual trusts	(947,490)
(Increase) decrease in assets:	
Receivables	6,939
Prepaid expenses	110,775
Other assets	(142,603)
Increase (decrease) in liabilities:	
Accounts payable and accrued expenses	(586,069)
Accrued pension expenses	22,106
Deferred revenue	(200,828)
Net cash provided by operating activities	257,592
Cash flows from investing activities:	
Purchases of property and equipment	(508,779)
Proceeds from the sale of property and equipment	884,513
Increase in restricted cash	(191,327)
Purchases of investments	(1,991,579)
Proceeds from the sale of investments	1,938,392
Net cash provided by investing activities	131,220
Cash flows from financing activities:	
Borrowings under short-term note payable	113,042
Principal payments on long-term debt	(312,673)
Principal payments on capital lease obligations	(169,003)
Net cash used in financing activities	(368,634)
Net increase in cash and cash equivalents	20,178
Cash and cash equivalents at beginning of year	12,088,562
Cash and cash equivalents at end of year	\$ 12,108,740
Supplemental disclosures of cash flow information:	
Assets acquired under capital lease	\$ 85,753
Cash paid for interest	\$ 78,004

ECKERD CONNECTS

Notes to Combined Financial Statements

June 30, 2018

(1) **Description of Organization and Nature of Activities**

Eckerd Connects (the “Organization”) is one of the largest nonprofit child and family service organizations in the United States. Eckerd Connects 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.

The Organization’s 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 Connects takes. Built on a bedrock of solution-oriented programs, Eckerd Connects 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 Connects in October 2017. For more information about Eckerd Connects, please visit www.Eckerd.org.

Effective August 31, 2014, Eckerd Connects was named the sole member of Caring for Children, Inc. (Caring for Children), 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 remains a separate tax exempt organization with its own Board of Directors consisting of Eckerd Connects’ senior executive team.

Eckerd Connects acquired Paxen, LLC, Paxen Learning Services, LLC and Paxen Huli Ke Alo, LLC (collectively, Paxen) as the sole member of Paxen 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.

On April 1, 2016, Eckerd Connects 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 provided workforce training programs that require basic education and employment skills, which enable participants to obtain good jobs or enroll in post-secondary education. The Training Services Group specializes in operating programs for at-risk youth, whether in-school or out-of-school, who are participating in federal workforce training assistance programs.

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

(a) **Principles of Combination**

The combined financial statements include the consolidated financial statements of Eckerd Connects and its wholly-owned subsidiary, Paxen, and its affiliate, Caring for Children. Significant intercompany balances and transactions have been eliminated in the combination.

ECKERD CONNECTS

Notes to Combined Financial Statements - Continued

(2) **Summary of Significant Accounting Policies - Continued**

(b) **Basis of Presentation**

The accompanying combined 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 Connects and changes therein are classified and reported as follows:

Unrestricted Net Assets: Net assets that are not subject to donor-imposed stipulations. Unrestricted net assets may be designated for specific purposes by action of the Board of Directors or may otherwise be limited by contractual agreements with outside parties.

Temporarily Restricted Net Assets: Net assets whose use by Eckerd Connects is subject to donor-imposed stipulations that can be fulfilled by actions of Eckerd Connects pursuant to those stipulations or that expire by the passage of time. When a restriction expires or is satisfied, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets released from restrictions.

Permanently Restricted Net Assets: Net assets whose use by Eckerd Connects is permanently restricted.

(c) **Cash and Cash Equivalents**

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

(d) **Restricted Cash**

Restricted cash represents funds held for the benefit of Eckerd Connects' clients and Eckerd Connects' contributions as required by these contracts.

(e) **Accounts Receivable**

Accounts receivable are stated at unpaid balances, less an allowance for doubtful accounts. The Organization provides for losses on accounts receivable using the allowance method. The allowance is based on historical experience, third-party contracts, and other circumstances, which may affect the ability of payors to meet their obligations. Receivables are considered impaired if full principal payments are not received in accordance with the contractual terms. It is the Organization's policy to charge off uncollectible accounts receivable when management determines the receivable will not be collected. Accounts receivable primarily consists of amounts due from governmental agencies for services performed. At June 30, 2018, an allowance for doubtful accounts has not been established as management believes that all amounts are collectible.

ECKERD CONNECTS

Notes to Combined Financial Statements - Continued

(2) Summary of Significant Accounting Policies - Continued

(f) Contributions Receivable

Contributions receivable are recorded as unrestricted, temporarily restricted, or permanently restricted based on the existence or nature of any donor restrictions. Contributions that are restricted by the donor are reported as increases in unrestricted net assets if the restrictions expire or are otherwise satisfied in the fiscal year in which the contributions are recognized. Time-restricted contributions are required to be reported as temporarily restricted support and are then reclassified to unrestricted net assets upon expiration of the time restriction.

Contributions receivable which are due in more than one year are recorded at estimated fair value by discounting future cash flows using current risk-free rates of return based on yields of U.S. Treasury Securities with maturity dates similar to the expected collection period.

(g) 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. Investment income (including realized and unrealized gains and losses on investments and interest and dividends, net of fees) is reflected in the combined statement of activities. Purchases and sales of investments are recorded on the trade date. The cost of investments sold is determined by the specific identification method.

(h) Note Receivable

Note receivable represents a promissory note accepted for the sale of real estate in 2010 which is collateralized by a mortgage on the underlying property. Note receivable is stated at the unpaid principal balance. An allowance for loan loss was not considered necessary based on payment history and the value of the collateral. Interest is recognized over the term of the loan at the rate of 5.5% and is calculated using the effective-interest method.

(i) Property and Equipment

Property and equipment are recorded at cost if purchased or at estimated market value at the date of receipt if acquired by gift. Expenditures in excess of \$5,000 are capitalized. Depreciation is calculated using the straight-line method over the estimated useful lives of the respective assets. Leasehold improvements are amortized over the lesser of the remaining lease term or the useful lives of the assets acquired. Property acquired with governmental funds is considered to be owned by the Organization while used in the program for which it was purchased or in future authorized programs; however, its disposition as well as ownership of any proceeds therefrom is subject to applicable regulations.

ECKERD CONNECTS

Notes to Combined Financial Statements - Continued

(2) Summary of Significant Accounting Policies - Continued

(j) 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 the Paxen acquisition. Goodwill acquired is deemed to have an indefinite useful life and is not amortized, but is instead tested for impairment at least annually, or more frequently if events and circumstances indicate that the assets might be impaired.

(k) Other Intangible Assets

Other intangible assets consist of timber rights for property owned in North Carolina and customer relationships acquired in connection with the Henkels & McCoy asset contribution agreement described in Note 1. The value of intangible assets is based on projected cash flows these various assets are expected to generate in the future. Timber rights have an expected useful life of 20 years and are being amortized using the straight line method. Customer relationships have an expected useful life of 15 years and are being amortized using the straight line method. Amortization expense for 2018 was \$233,908 and future amortization for the next five years is expected to be \$233,908 annually and \$1,837,610 thereafter. The gross carrying amounts and accumulated amortization of other intangibles as of June 30, 2018 are as follows:

	<u>Gross Carrying Amount</u>	<u>Accumulated Amortization</u>
Timber rights	\$ 132,549	23,197
Customer relationships	<u>3,409,178</u>	<u>511,380</u>
Total	<u>\$ 3,541,727</u>	<u>534,577</u>

(l) Income Taxes

Eckerd Connects and its affiliate, Caring for Children, are exempt from federal income taxes under Section 501(c)(3) of the Internal Revenue Code and from state income taxes under the provisions of the Florida and North Carolina Statutes. The Internal Revenue Code provides for taxation of unrelated business income; however, such status is subject to final determination upon examination of the related income tax returns by the appropriate taxing authorities. The Organization does not believe it has any material income tax exposure relating to uncertain tax positions as defined in Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) Topic 740, *Income Taxes*. The Organization's income tax filings remain subject to examination for the fiscal year ended June 30, 2015 and thereafter.

ECKERD CONNECTS

Notes to Combined Financial Statements - Continued

(2) Summary of Significant Accounting Policies - Continued

(m) Donated Materials and Services

Eckerd Connects receives food commodities and certain supplies for use in its programs. These donated supplies are recorded at fair value in the combined financial statements at the date of receipt. Donations of services are recorded as support at their estimated fair value if the services require specialized skills, are provided by individuals possessing those skills, and would typically need to be purchased if not provided by donation.

(n) Functional Expense Allocation

The costs of providing the Organization's various programs and supporting services have been summarized on a functional basis in the Combined Statement of Functional Expenses. Accordingly, certain costs related to more than one function are allocated to programs and supporting services using the most appropriate allocation methodology.

(o) Advertising

Advertising costs are expensed as incurred. Total advertising expense for the year ended June 30, 2018 was \$733,400.

(p) Estimates

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

(q) Management's Review

Management has evaluated subsequent events and transactions for potential recognition or disclosure through December 12, 2018, the date the financial statements were available to be issued.

(3) Contributions Receivable

Contributions receivable consist of promises to give from the National Foundation for Youth (NFY), a nonprofit organization whose mission is to raise and administer funds to support nonprofit organizations providing program services to youth and families. Two members of the Eckerd Connects' Board of Directors also serve on the NFY Board of Directors and the CFO of Eckerd Connects reviews quarterly investment statements and provides input as needed. Accordingly, NFY is considered a related party of Eckerd Connects. For the year ended June 30, 2018, NFY provided total support to Eckerd Connects in the amount of \$2,283,033 and contributions receivable at June 30, 2018 totaled \$1,144,175 which is expected to be collected in fiscal 2019.

ECKERD CONNECTS

Notes to Combined Financial Statements - Continued

(4) Investments

Investments are recorded at fair value and consist of the following at June 30, 2018:

	<u>Cost</u>	<u>Market</u>
Money market funds	\$ 124,817	124,817
U.S. government and agency obligations	1,192,015	1,175,844
Corporate bonds	524,859	515,135
Common stock - domestic	2,466,520	3,056,648
Common stock - international	319,724	362,237
	<u>\$ 4,627,935</u>	<u>5,234,681</u>

The Organization's investments in equity securities and corporate bonds are not concentrated in a single entity or a few entities nor are there any specific industry concentrations. The Board of Directors has designated interest and dividends, net of fees, for support of current operations. The remainder of investment return is retained to support future operations and to offset potential market declines. The following schedule summarizes investment return for the year ended June 30, 2018:

Bank interest income	\$ 85,597
Interest income from note receivable	39,338
Interest and dividend income - investments	98,254
Investment fees	(44,755)
Net realized and unrealized gains	<u>252,881</u>
	<u>\$ 431,315</u>

(5) Note Receivable

The Organization is holding one mortgage note receivable from the sale of property in 2010 from a commercial business. The note bears interest at 5.5% and interest only payments were due monthly through May 2018 with a final payment of outstanding interest and principal due in June 2018. The borrower has requested an extension on the final payment and Eckerd Connects negotiated new payment terms subsequent to June 30, 2018. The amended due date of the note is June 17, 2019 and may be extended to June 17, 2020 at Eckerd Connects' discretion. The note is collateralized by a mortgage on the underlying property and an allowance is not deemed necessary at June 30, 2018. The balance of the note at June 30, 2018 was \$1,112,107 and is classified as a non-current asset in the accompanying combined statement of financial position since the borrower was in default and the underlying collateral, if called, would be classified as a non-current asset. Interest income for the year ended June 30, 2018 was \$39,338.

ECKERD CONNECTS

Notes to Combined Financial Statements - Continued

(6) Property and Equipment

Property and equipment at June 30, 2018 is summarized as follows:

	<u>Estimated Life</u>	
Land		\$ 1,735,740
Building and improvements	10 - 34 years	14,643,014
Furniture and equipment	3 - 10 years	4,790,753
Transportation equipment	4 - 5 years	1,527,952
Construction in progress		<u>875,568</u>
Total		23,573,027
Less accumulated depreciation		<u>(15,908,797)</u>
Net property and equipment		<u>\$ 7,664,230</u>

Depreciation expense for the year ended June 30, 2018 was \$1,350,485.

(7) Beneficial Interest in Perpetual Trusts Held by Third Party

The Organization is an income beneficiary of two perpetual trusts which are measured based on the fair value of the assets held in each trust. The change in the fair value of the trust assets is reported as a change to permanently restricted net assets. Distributions of income are paid quarterly and are reported as a change to unrestricted net assets since earnings on each trust are unrestricted. The value of the Organization's interest in the perpetual trusts at June 30, 2018 was \$25,235,416.

(8) Fair Value Measurement

In accordance with FASB ASC Topic 820, *Fair Value Measurement*, financial instruments measured at fair value are classified and disclosed within a fair value hierarchy that prioritizes the inputs to valuation techniques into the following three categories:

- Level 1: Quoted prices are available in active markets for identical investments as of the reporting date. The types of investments included in Level 1 are money market funds, common stock, corporate and government bonds.
- Level 2: Pricing inputs are other than quoted prices in active markets, which are either directly or indirectly observable as of the reporting date, and fair value is determined through the use of models or other valuation methodologies.
- Level 3: Valuation is based on unobservable inputs. The beneficial interest in perpetual trusts is based on the Organization's allocable share of the fair value of the underlying assets held in the trust.

ECKERD CONNECTS

Notes to Combined Financial Statements - Continued

(8) Fair Value Measurement - Continued

The asset or liability's fair value measurement level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. Valuation techniques used need to maximize the use of observable inputs and minimize the use of unobservable inputs. There have been no changes in the methodology used for the year ended June 30, 2018.

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 carrying amount reported in the combined financial statements for cash and cash equivalents, accounts receivable and accounts payable approximates fair value because of the immediate or short-term maturities of these financial instruments.

The following table sets forth by level, the fair value hierarchy of financial instruments measured at fair value at June 30, 2018:

Description	Fair Value Measurements at Reporting Date Using			
	Assets Measured at Fair Value at June 30, 2018	Quoted Prices in Active Markets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Money market funds	\$ 124,817	124,817	-	-
Equities:				
Large cap growth	1,647,790	1,647,790	-	-
Large cap value	710,997	710,997	-	-
Small/mid cap growth	188,855	188,855	-	-
Small/mid cap value	328,347	328,347	-	-
International	539,414	539,414	-	-
Blended funds	3,482	3,482	-	-
Fixed income:				
Long-term	251,534	251,534	-	-
Intermediate	517,213	517,213	-	-
Short-term	922,232	922,232	-	-
	5,234,681	5,234,681	-	-
Beneficial interest in perpetual trust	25,235,416	-	-	25,235,416
	<u>\$ 30,470,097</u>	<u>5,234,681</u>	<u>-</u>	<u>25,235,416</u>

ECKERD CONNECTS

Notes to Combined Financial Statements - Continued

(8) Fair Value Measurement - Continued

The following provides further details of the Level 3 fair value measurement for the year ended June 30, 2018:

Beginning balance	\$ 24,287,926
Change in value of beneficial interest in perpetual trusts	<u>947,490</u>
Ending balance	<u>\$ 25,235,416</u>

(9) Short-Term Note Payable

During fiscal 2018, Eckerd Connects borrowed money under a short-term borrowing arrangement with the brokerage institution holding its investments. The arrangement allows Eckerd Connects to borrow funds using its investments as collateral. The outstanding balance at June 30, 2018 was \$113,042 and the interest rate on the outstanding balance was 4.35% at June 30, 2018. Eckerd Connects has two outstanding letters of credit in the amount of \$780,625 as of June 30, 2018 which are also collateralized by investments held by the brokerage institution. The beneficiaries under the letters of credit are the workers' compensation carriers as more fully described in Note 15. The remaining amount which can be borrowed under the short-term borrowing arrangement was \$2,173,881 as of June 30, 2018.

(10) Leases

The Organization leases the majority of its facilities and equipment under operating lease agreements which expire at various dates through 2025. Security deposits related to such leases are included in other assets. Rent expense for the year ended June 30, 2018 was approximately \$3,485,000. The majority of the Organization's operating leases for property include 30-day cancellation provisions in the event the Organization loses its funding.

The Organization is also obligated under several capital leases for vehicles and these leases expire over various dates through 2023. Amortization of assets held under capital leases is included in depreciation expense. The gross amount of vehicle equipment and related accumulated amortization recorded under the capital leases as of June 30, 2018 were as follows:

Equipment	\$ 901,399
Less accumulated amortization	<u>(478,444)</u>
	<u>\$ 422,955</u>

ECKERD CONNECTS

Notes to Combined Financial Statements - Continued

(10) Leases - Continued

Future minimum lease payments required under operating leases with initial or remaining lease terms in excess of one year (including cancellable leases) and the present value of minimum capital lease payments as of June 30, 2018 are as follows:

<u>Year Ending June 30,</u>	<u>Capital Leases</u>	<u>Operating Leases</u>	<u>Total</u>
2019	\$ 201,528	3,302,574	3,504,102
2020	159,407	2,163,833	2,323,240
2021	118,999	1,511,771	1,630,770
2022	31,541	1,456,162	1,487,703
2023	6,930	1,332,476	1,339,406
Thereafter	<u>-</u>	<u>1,283,127</u>	<u>1,283,127</u>
Total minimum lease payments	518,405	<u>11,049,943</u>	<u>11,568,348</u>
Less amount representing interest	<u>(24,288)</u>		
Present value of lease payments	494,117		
Current portion of capital lease obligations	<u>193,214</u>		
Capital lease obligations, less current portion	<u>\$ 300,903</u>		

(11) Long Term Debt

Long term debt consists of the following at June 30, 2018:

3.24% promissory note payable to a bank in monthly installments of \$29,181, including interest, through May 2021; secured by interest in accounts receivable, inventory and equipment	\$ <u>970,883</u>
Total long term debt	970,883
Less current installments	<u>323,476</u>
Long-term debt, excluding current installments	<u>\$ 647,407</u>

The promissory note payable to the bank includes certain financial and nonfinancial covenants. At June 30, 2018, Eckerd Connects was in compliance with these covenants.

ECKERD CONNECTS

Notes to Combined Financial Statements - Continued

(11) Long Term Debt - Continued

The aggregate maturities of long-term debt for each of the three years subsequent to June 30, 2018 are as follows:

<u>Year Ending June 30,</u>	<u>Amount</u>
2019	\$ 323,476
2020	334,113
2021	<u>313,294</u>
	<u>\$ 970,883</u>

(12) Temporary and Permanent Restrictions on Net Assets

Temporarily Restricted Net Assets

Temporarily restricted net assets at June 30, 2018 consist of the following:

Donor restricted for purpose:	
Adoption and foster care	\$ 51,861
Employee wellness	35,418
Program operations	439,573
Success awards - scholarships	<u>145,005</u>
	<u>\$ 671,857</u>

Permanently Restricted Net Assets

At June 30, 2018, permanently restricted net assets consist of the Organization's beneficial interest in two perpetual trusts held by third parties as follows:

National Foundation for Youth	\$ 23,545,590
Richard J. Ross Trust	<u>1,689,826</u>
	<u>\$ 25,235,416</u>

ECKERD CONNECTS

Notes to Combined Financial Statements - Continued

(13) Endowment Funds

Eckerd Connects' internally-controlled endowment net assets are comprised of investments held in a Board-designated endowment fund. Eckerd Connects' externally-controlled endowment net assets consist of its beneficial interest in two perpetual trusts administered by independent trustees.

Interpretation of Relevant Law

The Board of Directors has interpreted the wishes of donors and state law 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 Connects 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.

Investment Return Objectives, Risk Parameters and Strategies

Eckerd Connects has adopted investment and spending policies, approved by the Board of Directors, for endowment assets that attempt to provide a predictable stream of funding to programs supported by its endowment funds while also preserving the purchasing power of those endowments over the long-term. The policies stipulate that the endowments should be managed as a long-term goal designed to maximize the returns without exposure to undue risk. Whereas it is understood that fluctuating rates of return are characteristic of the securities markets, the greatest concern should be long-term appreciation of the assets and consistency of total portfolio returns. Recognizing that short-term market fluctuations may cause variations in account performance, the Organization will pursue a strategy seeking to exceed a benchmark return of a target portfolio consisting of 40% fixed income securities and 60% equity securities for the Board-designated fund. In addition, Eckerd Connects may only invest in equity securities listed on an American stock exchange and fixed income securities shall be AA rated or better.

Endowment net asset composition by type of fund at June 30, 2018 is as follows:

	<u>Unrestricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Board-designated endowment	\$ 5,275,015	-	5,275,015
Beneficial interest in perpetual trusts	<u>-</u>	<u>25,235,416</u>	<u>25,235,416</u>
	<u>\$ 5,275,015</u>	<u>25,235,416</u>	<u>30,510,431</u>

ECKERD CONNECTS

Notes to Combined Financial Statements - Continued

(13) Endowments - Continued

Changes in endowment net assets for the year ended June 30, 2018 are as follows:

	<u>Unrestricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Balances at June 30, 2017	\$ 4,966,636	24,287,926	29,254,562
Contributions	2,311	-	2,311
Net investment income	53,499	-	53,499
Net appreciation	252,881	-	252,881
Withdrawals	(312)	-	(312)
Change in value of beneficial interest in perpetual trusts	-	947,490	947,490
Balances at June 30, 2018	\$ <u>5,275,015</u>	<u>25,235,416</u>	<u>30,510,431</u>

(14) Employee Benefit Plans

Flexible Spending Plan: Effective January 1, 1993, Eckerd Connects 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 and as such, Eckerd Connects has no responsibility for the payment of such benefits.

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

Defined Contribution Benefit Plan: On July 1, 1993, Eckerd Connects adopted a defined contribution pension plan covering substantially all full-time employees. For fiscal 2018, employer contributions were made at the rate of 2% of eligible employees' compensation plus a 50% match on the employee's contribution up to a maximum amount of 3%. The employer contributions for 2018 totaled \$933,134.

Deferred Compensation Plan: Effective July 1, 2009, Eckerd Connects established a supplemental executive retirement plan (SERP) to retain and reward selected executives of the Organization 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. Total retirement plan expense recognized under the SERP for the year ended June 30, 2018 was \$70,455. The liability under the SERP as of June 30, 2018 was \$366,452, of which, \$244,313 was expected to be paid to an executive in fiscal 2019.

ECKERD CONNECTS

Notes to Combined Financial Statements - Continued

(15) Contingencies Under Insurance and State Unemployment Programs

Eckerd Connects has purchased insurance for major areas of exposure. The following is a summary of those policies with large deductible limits:

Health Insurance: Effective January 1, 2017, Eckerd Connects adopted a health insurance wellness plan (the “2017 Plan”) which provides medical and drug benefits to its employees. Under the terms of the 2017 Plan, the Organization was responsible for the first \$150,000 of individual covered claims subject to a maximum annual aggregate stop loss limit. Effective January 1, 2018, the Organization adopted a health insurance wellness plan with a different insurer (the “2018 Plan”) which also provides medical and drug benefits to its employees. Under the 2018 Plan, the Organization is responsible for the first \$175,000 of individual covered claims, subject to a maximum annual aggregate stop loss limit. Health insurance expense is based upon premiums paid to each insurer, estimated total cost of claims to be paid by the Organization that fall within the deductible limits described above, and the administrative costs of the plan. The Organization outsources administration of claims to a third party administrator (TPA). The TPA provides management with estimates of claims incurred, including incurred but unreported claims, and the future development of covered claims using an actuarially-determined reserve methodology based on current and historical claims development trends. As of June 30, 2018, accrued estimated health insurance expense was approximately \$750,000. For the year ended June 30, 2018, estimated health insurance expense was \$7,006,081. Actual claims expense may differ from these estimates.

Workers Compensation: Effective July 1, 2017, Eckerd Connects invested in an offshore captive insurance company, Evolution Insurance Company Ltd. (the “Captive”) based in the Cayman Islands. Eckerd Connects paid \$36,000 for one share of common stock and one share of preferred stock in the Captive. As an owner of the Captive, Eckerd Connects is insured under a workers’ compensation program where the Captive reinsures workers’ compensation claims up to \$400,000 subject to a \$1.4 million annual aggregate. Claims in excess of \$400,000 are covered under two separate policies with an unrelated insurance carrier. Eckerd Connects remits premium payments to the Captive and the Captive remits premiums to the unrelated insurer and processes all claims payments using a third party administrator. The Captive provides management with estimates of total incurred workers’ compensation claims, including claims incurred but unreported and future development of covered claims using an actuarially-determined reserve methodology based on current and historical claims experience. As of June 30, 2018, accrued estimated workers compensation claims expense was approximately \$267,000. At June 30, 2018, a letter of credit in the amount of \$348,625 has been issued to the Captive’s creditor as collateral for the payment of future claims. The letter of credit is secured by investment securities as described in Note 9.

In fiscal 2017, Eckerd Connects obtained workers’ compensation insurance under two policies with an unrelated insurance company. Under the terms of those policies, Eckerd Connects was responsible for the first \$350,000 of individual workers’ compensation claims. At June 30, 2018, the estimated accrued workers’ compensation claims due under those 2017 policies was approximately \$270,000. At June 30, 2018, a letter of credit has been issued for the benefit of this insurance carrier in the amount of \$432,000 as collateral for payment of future claims. This letter of credit is secured by investment securities as described in Note 9. Actual costs to settle all claims under the 2018 and 2017 workers’ compensation programs may differ from these estimates. Total workers’ compensation expense for the year ended June 30, 2018 was \$437,546.

ECKERD CONNECTS

Notes to Combined Financial Statements - Continued

(15) **Contingencies Under Insurance and State Unemployment Programs - Continued**

Unemployment Claims: Eckerd Connects contracted with an outside insurer for the administration of unemployment claims. Under the terms of the agreement, Eckerd Connects remits deposits to the insurer and is eligible for refunds based on actual claims experience. Additional premiums will be invoiced for changes in actual wages. Claims expense is capped based on a factor applied to actual wages. For the year ended June 30, 2018, Eckerd Connects paid the insurer \$213,700 in claims deposits and anticipates a nominal adjustment once actual wages have been audited and actual claims experience is determined. During fiscal 2018, Eckerd Connects paid approximately \$18,000 for prior premium adjustments due to increasing wages during fiscal 2017. While actual claims expense may differ from these estimates, management does not believe any material liability exists with respect to this program.

(16) **Other Contingencies**

Eckerd Connects routinely enters into grant agreements and contracts with governmental agencies that provide for reimbursement of direct and indirect costs of providing program services. The grants and contracts are subject to audit or review and retroactive adjustment based on a final determination by the grantor of eligible reimbursable expenditures. The effect of such adjustments, if any, on the Organization's combined financial statements cannot be determined at this time and no provision has been made for any such adjustment in the accompanying combined financial statements.

Eckerd Connects is occasionally involved in litigation arising in the normal course of its operations. The outcome of current litigation cannot be determined at the report date. Management believes any potential loss under these claims would be expected to fall within the Organization's insurance policy limits. The only anticipated financial exposure would be payment of the insurance deductible, a nominal amount. In the opinion of management, no material liability exists with respect to these claims.

Eckerd Connects has a land lease agreement for property which is currently subleased to a third party. Under the terms of the land lease agreement, upon termination of the lease, Eckerd Connects would be required to restore the property to its original forested status.

(17) **Credit Policy and Concentration of Credit Risk**

Eckerd Connects provides educational, rehabilitation, and therapeutic programs for adolescents, adults and families 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, 2018, no reserve for uncollectible accounts was considered necessary.

Eckerd Connects maintains its cash balances at various times during the year in excess of Federal Deposit Insurance Corporation (FDIC) limits. At June 30, 2018, cash balances held by Eckerd Connects and its affiliates exceeded FDIC limits by approximately \$13.8 million.

(18) **Related Party**

Eckerd Connects received contributions totaling \$415,695 from Board members during the year ended June 30, 2018.

SUPPLEMENTARY FINANCIAL INFORMATION

ECKERD CONNECTS

Combining Statement of Financial Position

June 30, 2018

	Eckerd Connects	Paxen, LLC	Eliminations	Consolidated Total	Caring for Children, Inc.	Eliminations	Combined Total
Assets							
Current assets:							
Cash and cash equivalents	\$ 10,716,372	473,324	-	11,189,696	919,044	-	12,108,740
Restricted cash	1,259,463	-	-	1,259,463	-	-	1,259,463
Accounts receivable	9,012,376	2,540,783	-	11,553,159	333,757	-	11,886,916
Intercompany receivable	214,290	(7,107)	-	207,183	(207,183)	-	-
Contributions receivable	1,144,175	-	-	1,144,175	-	-	1,144,175
Prepaid expenses	1,211,798	37,109	-	1,248,907	9,623	-	1,258,530
Total current assets	23,558,474	3,044,109	-	26,602,583	1,055,241	-	27,657,824
Investments	5,234,681	-	-	5,234,681	-	-	5,234,681
Note receivable	1,112,107	-	-	1,112,107	-	-	1,112,107
Other assets	548,634	46,637	-	595,271	42,024	-	637,295
Property and equipment, net	7,283,938	-	-	7,283,938	380,292	-	7,664,230
Goodwill	-	909,293	-	909,293	-	-	909,293
Other intangible assets	3,007,150	-	-	3,007,150	-	-	3,007,150
Beneficial interest in perpetual trusts	25,235,416	-	-	25,235,416	-	-	25,235,416
Total assets	\$ 65,980,400	4,000,039	-	69,980,439	1,477,557	-	71,457,996
Liabilities and Net Assets							
Current liabilities:							
Short-term note payable	\$ 113,042	-	-	113,042	-	-	113,042
Current portion of capital lease obligations	193,214	-	-	193,214	-	-	193,214
Current installments of long-term debt	323,476	-	-	323,476	-	-	323,476
Accounts payable and accrued expenses	13,424,868	267,261	-	13,692,129	161,554	-	13,853,683
Accrued pension expenses:							
Defined contribution plan	945,627	-	-	945,627	-	-	945,627
Deferred compensation plan	244,313	-	-	244,313	-	-	244,313
Total current liabilities	15,244,540	267,261	-	15,511,801	161,554	-	15,673,355
Capital lease obligations, less current portion	300,903	-	-	300,903	-	-	300,903
Long-term debt, excluding current installments	647,407	-	-	647,407	-	-	647,407
Accrued pension expenses - deferred compensation plan	122,139	-	-	122,139	-	-	122,139
Total liabilities	16,314,989	267,261	-	16,582,250	161,554	-	16,743,804
Net assets:							
Unrestricted-							
Undesignated	18,523,457	3,732,778	-	22,256,235	1,275,669	-	23,531,904
Designated for long-term purposes	5,234,681	-	-	5,234,681	40,334	-	5,275,015
Temporarily restricted	671,857	-	-	671,857	-	-	671,857
Permanently restricted	25,235,416	-	-	25,235,416	-	-	25,235,416
Total net assets	49,665,411	3,732,778	-	53,398,189	1,316,003	-	54,714,192
Total liabilities and net assets	\$ 65,980,400	4,000,039	-	69,980,439	1,477,557	-	71,457,996

See accompanying independent auditor's report.

ECKERD CONNECTS

Combining Statement of Activities

Year Ended June 30, 2018

	<u>Eckerd Connects</u>	<u>Paxen, LLC</u>	<u>Eliminations</u>	<u>Consolidated Total</u>	<u>Caring for Children, Inc.</u>	<u>Eliminations</u>	<u>Combined Total</u>
Unrestricted net assets:							
Unrestricted operating support and revenue:							
Program revenues:							
Funding contracts	\$ 209,229,961	12,487,768	2,180,778	219,536,951	1,459,394	-	220,996,345
Medicaid and third party insurance	268,461	-	-	268,461	2,283,862	119,550	2,432,773
Contributions	3,217,237	-	-	3,217,237	44,697	-	3,261,934
Interest and dividends, net of fees	178,039	-	-	178,039	395	-	178,434
Other revenue	249,612	248,784	-	498,396	13,480	-	511,876
Net assets released from restriction	2,052,223	-	-	2,052,223	289,505	-	2,341,728
	215,195,533	12,736,552	2,180,778	225,751,307	4,091,333	119,550	229,723,090
Unrestricted operating expenses	(214,984,614)	(12,198,341)	2,180,778	(225,002,177)	(4,113,629)	119,550	(228,996,256)
Change in unrestricted net assets from operations	210,919	538,211	-	749,130	(22,296)	-	726,834
Other changes in unrestricted net assets:							
Unrealized and realized gains on investments	252,881	-	-	252,881	-	-	252,881
Forgiveness of intercompany debt	(2,486,143)	2,486,143	-	-	-	-	-
Gain (loss) on sale of property and equipment	(9,719)	(12,476)	-	(22,195)	219,958	-	197,763
Change in unrestricted net assets	(2,032,062)	3,011,878	-	979,816	197,662	-	1,177,478
Temporarily restricted net assets:							
Grants and contributions	601,956	25	-	601,981	191,692	-	793,673
Net assets released from restriction	(2,052,223)	-	-	(2,052,223)	(289,505)	-	(2,341,728)
Change in temporarily restricted net assets	(1,450,267)	25	-	(1,450,242)	(97,813)	-	(1,548,055)
Permanently restricted net assets:							
Change in value of beneficial interest in perpetual trusts	947,490	-	-	947,490	-	-	947,490
Change in permanently restricted net assets	947,490	-	-	947,490	-	-	947,490
Change in net assets	(2,534,839)	3,011,903	-	477,064	99,849	-	576,913
Net assets at beginning of year	52,200,250	720,875	-	52,921,125	1,216,154	-	54,137,279
Net assets at end of year	\$ 49,665,411	3,732,778	-	53,398,189	1,316,003	-	54,714,192

See accompanying independent auditor's report.

ECKERD CONNECTS

Schedule of Expenditures of Federal Awards and State Financial Assistance

Year Ended June 30, 2018

Federal/State Agency/ Pass-through Entity/ Federal Program/State Project	CFDA/ CSFA Number	Contract/ Grant Number	Expenditures	Transfers to Subrecipients
Eckerd Connects:				
<i>U.S. Department of Agriculture:</i>				
<i>Child Nutrition Cluster:</i>				
National School Breakfast Program:	10.553			
Passed through from the State of Florida Department of Education		01-0112	\$ 58,907	-
Passed through from the State of North Carolina Department of Public Instruction, Division of Child Nutrition		1142	48,751	-
Total National School Breakfast Program			<u>107,658</u>	<u>-</u>
National School Lunch Program:	10.555			
Passed through from the State of Florida Department of Education		01-0112	110,842	-
Passed through from the State of North Carolina Department of Public Instruction, Division of Child Nutrition		1142	90,490	-
Total National School Lunch Program			<u>201,332</u>	<u>-</u>
Total Child Nutrition Cluster			308,990	-
Emergency Food Assistance Program (Food Commodities):	10.569			
Passed through from the State of Florida Department of Agriculture and Consumer Services		18-006-2005/18-006-2006	10,981	-
Passed through from the State of North Carolina Department of Public Instruction, Division of Child Nutrition		20924	3,509	-
Total Emergency Food Assistance Program (Food Commodities)			<u>14,490</u>	<u>-</u>
Total U.S. Department of Agriculture			<u>323,480</u>	<u>-</u>
<i>U.S. Department of Education:</i>				
E-Rate:	84.000			
Passed through from the Universal Service Administrative Company			64,489	-
Total E-Rate			<u>64,489</u>	<u>-</u>
Title I State Agency Program for Neglected and Delinquent Children and Youth:	84.013			
Passed through from the Pinellas County School Board		124709	74,919	-
Total Title I State Agency Program for Neglected and Delinquent Children and Youth			<u>74,919</u>	<u>-</u>
Special Education Grants to States:	84.027			
Passed through from the State of North Carolina Department of Public Instruction, Division of Child Nutrition		07012017-1	3,000	-
Total Special Education Grants to States			<u>3,000</u>	<u>-</u>
Total U.S. Department of Education			<u>142,408</u>	<u>-</u>
<i>U.S. Department of Health and Human Services:</i>				
Promoting Safe and Stable Families:	93.556			
Passed through from the Brevard County Partnership		SVP1501	139,290	-
Passed through from the State of North Carolina Department of Health and Human Services		35644	184,670	-
Passed through from the State of Florida Department of Children and Families		QJ3E0	1,739,409	1,732,466
Passed through from the State of Florida Department of Children and Families		QJ511	872,056	872,056
Total Promoting Safe and Stable Families			<u>2,935,425</u>	<u>2,604,522</u>
<i>TANF Cluster:</i>				
Temporary Assistance for Needy Families:	93.558			
Passed through from the Brevard County Partnership		SVP1501	27,929	-
Passed through from the Delaware County Workforce Development Board		ECK-022-16YT	34,925	-
Passed through from the Delaware County Workforce Development Board		ECK-023-16YT	51,443	-
Passed through from Philadelphia Works		PW 18-041	71,296	-
Passed through from Philadelphia Works		OY18-157	61,577	-
Passed through State of Ohio Franklin County Department of Job and Family Services		25-16-1402	678,907	-
Passed through State of Ohio Franklin County Department of Job and Family Services		25-16-1514	84,774	-
Passed through State of Ohio Franklin County Department of Job and Family Services		25-17-2010	149,708	-
Passed through State of Ohio Franklin County Department of Job and Family Services		25-18-3105	281,577	-

(Continued)

ECKERD CONNECTS

Schedule of Expenditures of Federal Awards and State Financial Assistance - Continued

Year Ended June 30, 2018

Federal/State Agency/ Pass-through Entity/ Federal Program/State Project	CFDA/ CSFA Number	Contract/ Grant Number	Expenditures	Transfers to Subrecipients
<i>TANF Cluster - Continued:</i>				
Temporary Assistance for Needy Families - Continued:	93.558			
Passed through from the Bucks County Workforce Development Board		2016-06	\$ 49,019	-
Passed through from CareerSource Flager Volusia		n/a	336,479	-
Passed through State of California, County of San Luis Obispo				
		C009 2016	487,154	-
Passed through from the First Coast Workforce Development Board		FCWD-2018-02	348,762	-
Passed through from the State of Florida Department of Children and Families		QJ3E0	5,474,515	3,266,883
Passed through from the State of Florida Department of Children and Families		QJ511	4,409,817	2,025,008
Total Temporary Assistance for Needy Families			<u>12,547,882</u>	<u>5,291,891</u>
Total TANF Cluster			<u>12,547,882</u>	<u>5,291,891</u>
Community-Based Child Abuse Prevention Grants:	93.590			
Passed through from the State of Florida Department of Children and Families		QJ66A	141,429	141,429
Passed through from the State of Florida Department of Children and Families		QJ66B	141,429	141,429
Total Community-Based Child Abuse Prevention Grants			<u>282,858</u>	<u>282,858</u>
Grants to States for Access and Visitation Programs:	93.597			
Passed through from the Brevard County Partnership		SVP1501	8,799	-
Passed through from the State of Florida Department of Children and Families		QJ3E0	97	-
Passed through from the State of Florida Department of Children and Families		QJ511	44,093	44,093
Total Grants to States for Access and Visitation Programs			<u>52,989</u>	<u>44,093</u>
Chafee Education and Training Vouchers Program (ETV):	93.599			
Passed through from the State of Florida Department of Children and Families		QJ3E0	229,230	-
Passed through from the State of Florida Department of Children and Families		QJ511	118,104	-
Total Chafee Education and Training Vouchers Program (ETV)			<u>347,334</u>	-
Head Start:	93.600			
Direct federal award from the U.S. Department of Health and Human Services		04HP0025-02	1,247,833	-
Total Head Start			<u>1,247,833</u>	-
Stephanie Tubbs Jones Child Welfare Services Program:	93.645			
Passed through from the Brevard County Partnership		SVP1501	6,283	-
Passed through from the State of Florida Department of Children and Families		QJ3E0	2,094,468	1,587,630
Passed through from the State of Florida Department of Children and Families		QJ511	1,763,392	1,186,291
Total Stephanie Tubbs Jones Child Welfare Services Program			<u>3,864,143</u>	<u>2,773,921</u>
Foster Care Title IV-E:	93.658			
Passed through from the Brevard County Partnership		SVP1501	56,193	-
Passed through from the Children's Network of Southwest Florida		SBN06	24,287	-
Passed through from the State of Florida Department of Children and Families		QJ3E0	15,167,214	10,790,926
Passed through from the State of Florida Department of Children and Families		QJ511	13,413,854	9,284,483
Total Foster Care Title IV-E			<u>28,661,548</u>	<u>20,075,409</u>
Adoption Assistance:	93.659			
Passed through from the Brevard County Partnership		SVP1501	14,189	-
Passed through from the State of Florida Department of Children and Families		QJ3E0	11,645,238	1,695,044
Passed through from the State of Florida Department of Children and Families		QJ511	10,755,578	1,079,881
Total Adoption Assistance			<u>22,415,005</u>	<u>2,774,925</u>
Social Services Block Grant:	93.667			
Passed through from the Children's Network of Southwest Florida		SBN06	17,054	-
Passed through from the State of Florida Department of Children and Families		QJ3E0	3,497,956	2,323,240
Passed through from the State of Florida Department of Children and Families		QJ511	3,003,772	2,200,307
Total Social Services Block Grant			<u>6,518,782</u>	<u>4,523,547</u>

(Continued)

ECKERD CONNECTS

Schedule of Expenditures of Federal Awards and State Financial Assistance - Continued

Year Ended June 30, 2018

Federal/State Agency/ Pass-through Entity/ Federal Program/State Project	CFDA/ CSFA Number	Contract/ Grant Number	Expenditures	Transfers to Subrecipients
Child Abuse and Neglect State Grants:	93.669			
Passed through from the State of Florida Department of Children and Families		QJ3E0	\$ 22,435	20,093
Passed through from the State of Florida Department of Children and Families		QJ511	95,688	95,688
Total Child Abuse and Neglect State Grants			<u>118,123</u>	<u>115,781</u>
John H. Chafee Foster Care Program for Successful Transition to Adulthood:	93.674			
Passed through from the State of Florida Department of Children and Families		QJ3E0	761,267	487,283
Passed through from the State of Florida Department of Children and Families		QJ511	714,807	455,528
Total John H. Chafee Foster Care Program for Successful Transition to Adulthood			<u>1,476,074</u>	<u>942,811</u>
<i>Medicaid Cluster:</i>				
Medical Assistance Program:	93.778			
Passed through from the State of Florida Department of Children and Families		QJ3E0	64,096	-
Passed through from the State of Florida Department of Children and Families		QJ511	111,158	-
Total Medical Assistance Program			<u>175,254</u>	<u>-</u>
Total Medicaid Cluster			<u>175,254</u>	<u>-</u>
Block Grant for the Prevention and Treatment of Substance Abuse:	93.959			
Passed through from Central Florida Cares Health System		EKM-18	1,270,039	-
Passed through from Central Florida Cares Health System		EYA 18-1	150,000	-
Passed through from Lutheran Services Florida, Inc.		LS027	386,532	-
Total Block Grant for the Prevention and Treatment of Substance Abuse			<u>1,806,571</u>	<u>-</u>
Total U.S. Department of Health and Human Services			<u>82,449,821</u>	<u>39,429,758</u>
<i>U.S Department of Labor:</i>				
<i>WIOA Cluster:</i>				
WIOA Adult Program:	17.258			
Passed through from Pee Dee Regional Council of Governments		7Y50711	26,039	-
Passed through from Kansas Local Workforce Development Board		n/a	53,971	-
Passed through from Kansas Local Workforce Development Board		n/a	87,382	-
Passed through from the Appalachian Council on Government		16A 295H2/16D295H2	827,630	-
Passed through from the Upper Savannah Council on Government		713960	373,755	-
Passed through from the Berkley Charleston Dorchester Council of Governments		n/a	1,264,676	-
Passed through from the Berkley Charleston Dorchester Council of Governments		2017-2018 Adult OSO	357,357	-
Passed through from the Lower Savannah Workforce Development Area		6AC97ED	829,316	-
Passed through from the Lower Savannah Workforce Development Area		6DAY697ED	32,662	-
Passed through from the Santee Lynches Workforce Development Board		17470E1	33,177	-
Passed through from the State of New York Department of Youth and Community Development		60796B	261,906	-
Passed through from the State of California County of San Luis Obispo Department of Social Services		C14 2017	298,489	-
Passed through from the State of California City of San Jose Office of Economic Development		T30341/1246871	72,640	-
Passed through from the State of California City of San Jose Office of Economic Development		ACFB5C0A-F555-4942-8455	196,432	-
Passed through State of New Jersey County of Mercer		2016-392	147,531	-
Passed through from the Citrus Levy Marion Regional Workforce Development Board		PY17-LOA-05	10,520	-
Passed through from the Ocean County Workforce Development Board		n/a	153,672	-
Passed through from the State of Maryland Prince George County		2018CR-WDB-005	22,797	-
Passed through from the Philadelphia Works		PW 18-041	4,753	-
Total WIOA Adult Program			<u>5,054,705</u>	<u>-</u>

(Continued)

ECKERD CONNECTS

Schedule of Expenditures of Federal Awards and State Financial Assistance - Continued

Year Ended June 30, 2018

Federal/State Agency/ Pass-through Entity/ Federal Program/State Project	CFDA/ CSFA Number	Contract/ Grant Number	Expenditures	Transfers to Subrecipients
WIOA Youth Activities:	17.259			
Passed through the State of North Carolina City of Durham		n/a	\$ 394,508	-
Passed through from the Durham Workforce Development Board		n/a	276,101	-
Passed through from the Appalachian Council on Government		16Y495H2	606,086	-
Passed through from the Berkley Charleston Dorchester Council of Governments		n/a	1,045,350	-
Passed through from the Santee Lynches Workforce Development Board		163610PYC	596,671	-
Passed through from the Santee Lynches Workforce Development Board		17470E1	33,177	-
Passed through from the Lowcountry Council of Governments		WIOA 2015-01	99,795	-
Passed through from the Lowcountry Council of Governments		WIOA 2016-01-OSO	65,432	-
Passed through from the Lower Savannah Workforce Development Area		6DAY697ED	28,703	-
Passed through from the Bucks County Workforce Development Board		2016-06	31,340	-
Passed through from the Bucks County Workforce Development Board		2016-05	69,703	-
Passed through from the Citrus Levy Marion Regional Workforce Development Board		PY16-LOA-05	112,967	-
Passed through from the Citrus Levy Marion Regional Workforce Development Board		15-01PY2015	895,931	-
Passed through from the Delaware County Workforce Development Board		ECK-024-16YT	125,212	-
Passed through from the State of New York Department of Youth and Community Development		20171406063	595,431	-
Passed through from the State of New York Department of Youth and Community Development		20171408553	605,680	-
Passed through from the State of New York Department of Youth and Community Development		90311A	8,696	-
Passed through from the State of New York Department of Youth and Community Development		90457A	17	-
Passed through from the State of New York Department of Youth and Community Development		90528	192	-
Passed through from the Career Source Research Coast		11-006-ISOSYS	793,879	-
Passed through from the Career Source Research Coast		15-003-YWS	114,239	-
Passed through from the Pasco Hernando Workforce Board, Inc.		n/a	859,979	-
Passed through from the CareerSource Flagler Volusia		n/a	336,479	-
Passed through from the First Coast Workforce Development Board		FCWD-2018-02	377,825	-
Passed through from the State of California County of San Luis Obispo Department of Social Services		C022 2016	369,382	-
Passed through State of Ohio Franklin County Department of Job and Family Services		25-18-3105	281,577	-
Passed through from the Central Ohio Workforce Investment Corporation		16-YO-1B-1416	37,422	-
Passed through from the Ocean County PIC, Inc.		16-220-510-640-F050	91,416	-
Passed through from the Susquehanna Workforce Network		CY15-1	241,312	-
Passed through from the State of Maryland Prince George County		2018CR-WDB-004	57,019	-
Passed through from the State of Maryland Prince George County		2018CR-WDB-005	22,797	-
Passed through from the State of California County of Stanislaus		936-17	181,560	-
Passed through State Workforce Coastal		16-0167	35,559	-
Total WIOA Youth Activities			<u>9,391,437</u>	<u>-</u>
WIOA Dislocated Worker Formula Grants:	17.278			
Passed through from Trident Technical College		16RET02	29,534	-
Passed through from the Appalachian Council on Government		16A295H2 & 16D295H2	112,681	-
Passed through from the Berkley Charleston Dorchester Council of Governments		n/a	252,773	-
Passed through from the Lower Savannah Workforce Development Area		6DC97ED	282,203	-
Passed through from the Lower Savannah Workforce Development Area		6DAY697ED	37,612	-
Passed through from the Berkley Charleston Dorchester Council of Governments		2017-2018-DW	92,393	-
Passed through from the Upper Savannah Council on Government		713960	235,103	-
Passed through from the Upper Savannah Council on Government		72R96E1	77,117	-
Passed through from the Santee Lynches Workforce Development Board		17470E1	33,177	-
Passed through from the State of California County of San Luis Obispo Department of Social Services		C14 2017	336,593	-
Passed through from the Pee Dee Regional Council of Governments		7Y50711	5,961	-
Passed through from the Citrus Levy Marion Regional Workforce Development Board		n/a	7,935	-
Passed through from the Career Source Pasco Hernando		WIOA Services 2017-18	141,509	-
Passed through from the State of Maryland Prince George County		2018CR-WDB-005	22,797	-
Passed through from the Philadelphia Works		PW 18-041	3,169	-
Total WIOA Dislocated Worker Formula Grants			<u>1,670,557</u>	<u>-</u>
Total WIOA Cluster			<u>16,116,699</u>	<u>-</u>

(Continued)

ECKERD CONNECTS

Schedule of Expenditures of Federal Awards and State Financial Assistance - Continued

Year Ended June 30, 2018

Federal/State Agency/ Pass-through Entity/ Federal Program/State Project	CFDA/ CSFA Number	Contract/ Grant Number	Expenditures	Transfers to Subrecipients
Reentry Employment Opportunities:	17.270			
Direct federal award from the U.S. Department of Labor		YF-29324-16-60-A-12	\$ 1,709,603	1,378,335
Total Reentry Employment Opportunities			<u>1,709,603</u>	<u>1,378,335</u>
Total U.S. Department of Labor			<u>17,826,302</u>	<u>1,378,335</u>
Total Expenditures of Federal Awards - Eckerd Connects			<u>\$ 100,742,011</u>	<u>40,808,093</u>
Caring for Children:				
<i>U.S. Department of Health and Human Services:</i>				
Transitional Living for Homeless Youth:	93.550			
Direct federal award from the U.S. Department of Health and Human Services		90CS3913-05-00	\$ 46,250	-
Total Transitional Living for Homeless Youth			<u>46,250</u>	<u>-</u>
Promoting Safe and Stable Families:	93.556			
Passed through State of North Carolina Department of Health and Human Services		35076	364,310	-
Passed through State of North Carolina Department of Health and Human Services		35494	<u>37,276</u>	<u>-</u>
Total Promoting Safe and Stable Families			<u>401,586</u>	<u>-</u>
Basic Center Grant:	93.623			
Direct federal award from the U.S. Department of Health and Human Services		90CY6761-02-00	185,000	-
Total Basic Center Grant			<u>185,000</u>	<u>-</u>
Total U.S. Department of Health and Human Services			<u>632,836</u>	<u>-</u>
Total Expenditures of Federal Awards - Caring for Children			<u>\$ 632,836</u>	<u>-</u>
Paxen, LLC:				
<i>U.S. Department of Labor:</i>				
<i>WIOA Cluster:</i>				
WIOA Adult Program:	17.258			
Passed through from the River Valley Regional Commission		n/a	\$ 286,892	-
Total WIOA Adult Program			<u>286,892</u>	<u>-</u>
WIOA Youth Activities:	17.259			
Passed through from the Middle Georgia Consortium, Inc.		17-11-18	375,659	-
Passed through from the Pee Dee Regional Council of Governments		7Y50711	716,847	-
Passed through from the Lower Savannah Workforce Development Area		7N197PN	922,079	-
Passed through from the River Valley Regional Commission		n/a	369,332	-
Passed through from the Southern Georgia Regional Commission		17-04	391,241	-
Passed through from the State Workforce Coastal		16-0167	90,649	-
Passed through from the State Workforce Coastal		16-0167-1	744,833	-
Passed through from the Northeast Georgia Regional Commission		PY15Paxen	275,014	-
Passed through from the Three Rivers Workforce Development		2017-YS-Paxen-01	691,906	-
Passed through from the Cobbworks, Inc.		17-02	120,203	-
Passed through from the Macon-Bibb County Workforce Development Board		n/a	380,579	-
Passed through from the State of Georgia Columbus Consolidated Government		WDA 17-09	104,199	-
Passed through from the State of Georgia DeKalb County		1086650	146,884	-
Passed through from the Northwest Georgia Regional Commission		01-17-20-0167	343,520	-
Passed through from the State of Georgia City of Colquitt		PY17-126-WIOA	466,313	-
Passed through from the Atlanta Regional Commission		WD1812	<u>362,754</u>	<u>-</u>
Total WIOA Youth Activities			<u>6,502,012</u>	<u>-</u>
Total WIOA Cluster			<u>6,788,904</u>	<u>-</u>
Reentry Employment Opportunities:	17.270			
Passed through from Eckerd Connects		YF-29324-16-60-A-12	1,378,335	-
Total Reentry Employment Opportunities			<u>1,378,335</u>	<u>-</u>
Total Expenditures of Federal Awards - Paxen, LLC			<u>8,167,239</u>	<u>-</u>
Total Expenditures of Federal Awards - All Entities			<u>\$ 109,542,086</u>	<u>40,808,093</u>

(Continued)

ECKERD CONNECTS

Schedule of Expenditures of Federal Awards and State Financial Assistance - Continued

Year Ended June 30, 2018

State Agency/ Pass-through Entity/ State Project	CSFA Number	Contract/ Grant Number	Expenditures	Transfers to Subrecipients
Eckerd Connects - State of Florida State Financial Assistance:				
<i>Department of Children and Families:</i>				
Out of Home Supports:	60.074			
Direct state award from the Department of Children and Families		QJ3E0	\$ 3,467,359	1,264,671
Direct state award from the Department of Children and Families		QJ511	2,121,806	667,260
Total Out of Home Supports			<u>5,589,165</u>	<u>1,931,931</u>
In Home Supports:	60.075			
Direct state award from the Department of Children and Families		QJ3E0	157,740	157,740
Direct state award from the Department of Children and Families		QJ511	392,739	392,739
Total In Home Supports			<u>550,479</u>	<u>550,479</u>
Independent Living:	60.112			
Direct state award from the Department of Children and Families		QJ3E0	461,785	214,356
Direct state award from the Department of Children and Families		QJ511	220,686	76,048
Total Independent Living			<u>682,471</u>	<u>290,404</u>
Sexually Exploited Children:	60.138			
Direct state award from the Department of Children and Families		QJ3E0	219,684	-
Direct state award from the Department of Children and Families		QJ511	21,698	21,698
Total Sexually Exploited Children			<u>241,382</u>	<u>21,698</u>
Extended Foster Care:	60.141			
Direct state award from the Department of Children and Families		SBN06	3,320	-
Direct state award from the Department of Children and Families		QJ3E0	328,299	79,355
Direct state award from the Department of Children and Families		QJ511	392,397	70,773
Total Extended Foster Care			<u>724,016</u>	<u>150,128</u>
Total Department of Children and Families			<u>7,787,513</u>	<u>2,944,640</u>
Total Expenditures of State of Florida State Financial Assistance - Eckerd Connects			<u>\$ 7,787,513</u>	<u>2,944,640</u>
Paxen, LLC - State of Florida State Financial Assistance:				
<i>Department of Military Affairs:</i>				
Passed through from the Florida National Guard:	62.001			
About Face		DMA-JDF-623	\$ 511,563	-
Forward March		DMA-JDF-626	244,125	-
Total Department of Military Affairs			<u>755,688</u>	<u>-</u>
Total Expenditures of State of Florida State Financial Assistance - Paxen, LLC			<u>\$ 755,688</u>	<u>-</u>
Total Expenditures of State of Florida State Financial Assistance - All Entities			<u>\$ 8,543,201</u>	<u>2,944,640</u>
Caring for Children - State of North Carolina State Financial Assistance:				
<i>North Carolina Department of Health and Human Services, Division of Social Services:</i>				
Angel's Watch:	n/a			
Direct state award from the Department of Health and Human Services			\$ 580,280	-
Total Angel's Watch			<u>580,280</u>	<u>-</u>
Total North Carolina Department of Health and Human Services			580,280	-
North Carolina Department of Public Safety:				
<i>Trinity Runaway Shelter Care:</i>				
Passed through from Buncombe County's Juvenile Crime Prevention Council	n/a	211-14041	85,000	-
Total Trinity Runaway Shelter Care			<u>85,000</u>	<u>-</u>
Total North Carolina Department of Public Safety			<u>85,000</u>	<u>-</u>
Total Expenditures of North Carolina State Financial Assistance - Caring for Children, Inc.			<u>\$ 665,280</u>	<u>-</u>

ECKERD CONNECTS

Notes to Schedule of Expenditures of Federal Awards and State Financial Assistance

Year Ended June 30, 2018

(A) **Basis of Presentation**

The accompanying schedule of expenditures of federal awards and state financial assistance (the "Schedule") includes the federal and state grant activity of Eckerd Youth Alternatives, Inc. (d/b/a Eckerd Connects) and its affiliates, Caring for Children, Inc. and Paxen, LLC (collectively, Eckerd Connects) under programs of the federal government, the State of Florida and the State of North Carolina for the year ended June 30, 2018. The information in this schedule is presented in accordance with the 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), Chapter 10.650, *Rules of the State of Florida Auditor General*, and the *North Carolina State Single Audit Implementation Act*. Because the Schedule presents only a selected portion of the operations of Eckerd Connects, it is not intended to and does not present the combined financial position, changes in net assets or cash flows of Eckerd Connects.

(B) **Summary of Significant Accounting Policies**

Expenditures reported on the Schedule are reported on the accrual basis of accounting. Such expenditures are recognized following the cost principles contained in the Uniform Guidance, Chapter 10.650, *Rules of the State of Florida Auditor General*, and *North Carolina State Single Audit Implementation Act*. Under these cost principles, certain expenditures are not allowable or are limited as to reimbursement.

(C) **Non-Cash Assistance/Federal Insurance**

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

(D) **Other**

The accompanying Schedule includes federal expenditures awarded by pass-through agencies. Expenditures of certain federal programs were awarded to Eckerd Connects by more than one pass-through agency or under more than one contract.

Due to Eckerd Youth Alternatives, Inc.'s historical use of a negotiated indirect cost rate agreement with the U.S. Department of Health and Human Services, Eckerd Youth Alternatives, Inc. is not using the 10% de minimis indirect cost rate allowed under the Uniform Guidance. Caring for Children, Inc. and Paxen, LLC have elected to use the 10 percent de minimis indirect cost rate allowed under the Uniform Guidance.

ECKERD CONNECTS

Notes to Schedule of Expenditures of Federal Awards and State Financial Assistance - Continued

(D) Other - Continued

Total federal expenditures by federal program for the year ended June 30, 2018 were as follows:

CFDA No.	Federal Program	Eckerd Youth Alternatives, Inc.	Caring for Children, Inc.	Paxen, LLC	Total Expenditures
<i>Child Nutrition Cluster:</i>					
10.553	National School Breakfast Program	\$ 107,658	-	-	107,658
10.555	National School Lunch Program	201,332	-	-	201,332
		<u>308,990</u>	<u>-</u>	<u>-</u>	<u>308,990</u>
10.569	Emergency Food Assistance Program (Food Commodities)	14,490	-	-	14,490
<i>WIOA Cluster:</i>					
17.258	WIOA Adult Program	5,054,705	-	286,892	5,341,597
17.259	WIOA Youth Activities	9,391,437	-	6,502,012	15,893,449
17.278	WIOA Dislocated Worker Formula Grants	1,670,557	-	-	1,670,557
		<u>16,116,699</u>	<u>-</u>	<u>6,788,904</u>	<u>22,905,603</u>
17.270	Reentry Employment Opportunities	1,709,603	-	1,378,335	3,087,938
84.000	E-Rate	64,489	-	-	64,489
84.013	Title I State Agency Program for Neglected and Delinquent Children and Youth	74,919	-	-	74,919
84.027	Special Education Grants to States	3,000	-	-	3,000
93.550	Transitional Living for Homeless Youth	-	46,250	-	46,250
93.556	Promoting Safe and Stable Families	2,935,425	401,586	-	3,337,011
<i>TANF Cluster:</i>					
93.558	Temporary Assistance to Needy Families	12,547,882	-	-	12,547,882
93.590	Community-Based Child Abuse Prevention Grants	282,858	-	-	282,858
93.597	Grants to States for Access and Visitation Programs	52,989	-	-	52,989
93.599	Chafee Education and Training Vouchers Program (ETV)	347,334	-	-	347,334
93.600	Head Start	1,247,833	-	-	1,247,833
93.623	Basic Center Grant	-	185,000	-	185,000
93.645	Stephanie Tubbs Jones Child Welfare Services Program	3,864,143	-	-	3,864,143
93.658	Foster Care Title IV-E	28,661,548	-	-	28,661,548
93.659	Adoption Assistance	22,415,005	-	-	22,415,005
93.667	Social Services Block Grant	6,518,782	-	-	6,518,782
93.669	Child Abuse and Neglect State Grants	118,123	-	-	118,123
93.674	John H. Chafee Foster Care Program for Successful Transition to Adulthood	1,476,074	-	-	1,476,074
<i>Medicaid Cluster:</i>					
93.778	Medical Assistance Program	175,254	-	-	175,254
93.959	Block Grant for the Prevention and Treatment of Substance Abuse	<u>1,806,571</u>	<u>-</u>	<u>-</u>	<u>1,806,571</u>
		<u>\$ 100,742,011</u>	<u>632,836</u>	<u>8,167,239</u>	<u>109,542,086</u>

INTERNAL CONTROL AND COMPLIANCE



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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 Combined Financial
Statements Performed in Accordance with Government Auditing Standards**

The Board of Directors
Eckerd Youth Alternatives, Inc. and Affiliates:

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 combined financial statements of Eckerd Youth Alternatives, Inc. (d/b/a Eckerd Connects) and Affiliates (collectively, Eckerd Connects), which comprise the combined statement of financial position as of June 30, 2018, and the related combined statements of activities, functional expenses, and cash flows for the year then ended, and the related notes to the combined financial statements, and have issued our report thereon dated December 12, 2018.

Internal Control Over Financial Reporting

In planning and performing our audit of the combined financial statements, we considered Eckerd Connects' 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 combined financial statements, but not for the purpose of expressing an opinion on the effectiveness of Eckerd Connects' internal control. Accordingly, we do not express an opinion on the effectiveness of Eckerd Connects' internal control.

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

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified. We did identify a deficiency in internal control, described in the accompanying schedule of findings and questioned costs as item 2018-001 that we consider to be a significant deficiency.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Eckerd Connects' combined 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*.

The Organization's Response to Finding

The Organization's response to the finding identified in our audit is described in the accompanying corrective action plan. The Organization's response was not subjected to the auditing procedures applied in the audit of the combined financial statements, and accordingly, we express no opinion on it.

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.

Mayer Hoffman McCann P.C.

December 12, 2018
Clearwater, Florida



Independent Auditor's Report on Compliance for Each Major Federal Program and State Financial Assistance Project and on Internal Control Over Compliance Required by the Uniform Guidance, Chapter 10.650, Rules of the State of Florida Auditor General, and the North Carolina State Single Audit Implementation Act

The Board of Directors
Eckerd Youth Alternatives, Inc. and Affiliates:

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

We have audited Eckerd Youth Alternatives, Inc. (d/b/a Eckerd Connects) and Affiliates' compliance with the types of compliance requirements described in the *OMB Compliance Supplement*, the requirements described in the *Florida Department of Financial Services' State Projects Compliance Supplement*, and the *Audit Manual for Government Auditors in North Carolina*, that could have a direct and material effect on each of Eckerd Connects' major federal programs and state projects for the year ended June 30, 2018. Eckerd Connects' 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.

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 Connects' major federal programs and major state 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), Chapter 10.650, *Rules of the State of Florida Auditor General*, and the *North Carolina State Single Audit Implementation Act*. Those standards, the Uniform Guidance, Chapter 10.650, *Rules of the Auditor General* and the *North Carolina State Single Audit Implementation Act*, 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 project occurred. An audit includes examining, on a test basis, evidence about Eckerd Connects' compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

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

Opinion on Each Major Federal Program and State Project

In our opinion, Eckerd Connects 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 project for the year ended June 30, 2018.

Report on Internal Control Over Compliance

Management of Eckerd Connects 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 Connects' internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program and state 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 project and to test and report on internal control over compliance in accordance with the Uniform Guidance, Chapter 10.650, *Rules of the Auditor General* and the *North Carolina State Single Audit Implementation Act*, 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 Connects' 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 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 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. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

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, Chapter 10.650, *Rules of the Auditor General*, and the *North Carolina State Single Audit Implementation Act*. Accordingly, this report is not suitable for any other purpose.

Mayer Hoffman McCann P.C.

December 12, 2018
Clearwater, Florida

ECKERD CONNECTS

Schedule of Findings and Questioned Costs

Year Ended June 30, 2018

(A) Summary of Auditor's Results

1. The auditor's report expresses an unmodified opinion on the combined financial statements of Eckerd Youth Alternatives, Inc. and Affiliates.
2. One significant deficiency relating to the audit of the combined financial statements is reported in the Independent Auditor's Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Combined Financial Statements Performed in Accordance with *Government Auditing Standards*.
3. No instances of noncompliance material to the combined financial statements of Eckerd Youth Alternatives, Inc. and Affiliates were disclosed during the audit.
4. No significant deficiencies relating to the audit of the major federal programs and state projects are reported in the Independent Auditor's Report on Compliance for Each Major Federal Program and State Financial Assistance Project and on Internal Control Over Compliance Required by the Uniform Guidance, Chapter 10.650, *Rules of the State of Florida Auditor General*, and the *North Carolina State Single Audit Implementation Act*.
5. The auditor's report on compliance for the major federal award programs and state projects for Eckerd Youth Alternatives, Inc. and Affiliates expresses an unmodified opinion.
6. Audit findings, if any, relative to the major federal award programs and state projects for Eckerd Youth Alternatives, Inc. and Affiliates are reported in Part C and Part D of this schedule.

The programs tested as major federal programs and state projects were:

Federal Programs:

WIOA Cluster (CFDA No. 17.258, 17.259, and 17.278)
Adoption Assistance (CFDA No. 93.659)
Social Services Block Grant (CFDA No. 93.667)

Florida State Projects:

Out-of-Home Supports (CSFA No. 60.074)
In-Home Supports (CSFA No. 60.075)

North Carolina State Project:

Angel's Watch

7. The threshold for distinguishing Types A and B programs was \$3,000,000 for major federal programs, \$300,000 for Florida major state projects, and \$500,000 for North Carolina major state projects.
8. Eckerd Youth Alternatives, Inc. and Affiliates were determined to be low-risk auditees.

ECKERD CONNECTS

Schedule of Findings and Questioned Costs - Continued

(B) Findings - Audit of Combined Financial Statements

Item 2018-001: Accounts Receivable Aging

Significant Deficiency

Condition: Accounts receivable aging reports include payments which have not been applied to outstanding invoices because funding sources submit payments without identifying information on the invoices being paid. As a result, aging totals include original invoices which have been partially paid and credit balances for unapplied payments in different aging categories.

Criteria: Internal controls should be in place to provide a basis for identifying the invoices being paid from funding sources so that payments can be applied to the appropriate outstanding invoices and aging totals can be relied upon to report the age of any outstanding invoices.

Effect: Management cannot determine which invoices are outstanding or the amount that remains unpaid by invoice.

Recommendation: We recommend that management schedule standing meetings with their funding sources to determine the identity of amounts paid and the determination of whether outstanding balances can be rebilled and collected in a timely manner. For those funding sources who remain uncooperative, we recommend that management consider whether continuation of these programs can be sustained given the inherent interest costs incurred for delayed payments for services provided.

View of Responsible Officials and Planned Corrective Actions: Procedures will be implemented to ensure the timely processing of unidentified payments received from funding sources including dedicating a full-time position to work with funding sources to secure the information needed to process accounts receivable payments in a timely manner.

(C) Findings and Questioned Costs - Major Federal Award Programs

None.

(D) Findings and Questioned Costs - Major State Financial Assistance Projects

None for Florida major state projects and the North Carolina major state project.

(E) Other Issues

A Summary Schedule of Prior Audit Findings is required because there were prior audit findings related to a North Carolina major state project.

Corrective Action Plan

Year Ended June 30, 2018

U.S. Department of Health and Human Services

Eckerd Connects respectfully submits the following corrective action plan for the year ended June 30, 2018.

Name and address of independent public accounting firm:

Mayer Hoffman McCann P.C.
13577 Feather Sound Drive, Suite 400
Clearwater, Florida 33762

The finding from the Schedule of Findings and Questioned Costs (the “Schedule”) for the year ended June 30, 2018 is discussed below. The finding is numbered consistently with the number assigned in the Schedule.

FINDING - AUDIT OF FINANCIAL STATEMENTS

Significant Deficiency

2018-001: Accounts Receivable Aging

Recommendation: We recommend that management schedule standing meetings with their funding sources to determine the identity of amounts paid and the determination of whether outstanding balances can be rebilled and collected in a timely manner. For those funding sources who remain uncooperative, we recommend that management consider whether continuation of these programs can be sustained given the inherent interest costs incurred for delayed payments for services provided.

Planned Corrective Actions: Procedures will be implemented to ensure the timely processing of unidentified payments received from funding sources including dedicating a full-time position to work with funding sources to secure the information needed to process accounts receivable payments in a timely manner.

If the U.S. Department of Health and Human Services has questions regarding this plan, please contact Mr. Randall W. Luecke at (727) 461-1236, extension 3262.

ECKERD CONNECTS

Summary Schedule of Prior Year Audit Findings

Year Ended June 30, 2018

Finding 2017-001: Eligibility - Material Weakness

Impacted Program: State Agency: North Carolina (N.C.) Department of Health and Human Services
Program: Angel's Watch

Condition: The Organization does not have a process in place to track participant eligibility or participant expenditures by funding source.

Auditor's Recommendation: The Organization should implement the quality control mechanism currently used by their Foster Care program within the Angel's Watch program to ensure accurate eligibility determinations and documentation. In addition, procedures should be implemented to segregate and track participant expenditures by funding source.

Current Status: This item was remediated.

Finding 2017-002: Reporting - Material Weakness

Impacted Program: State Agency: N.C. Department of Health and Human Services
Program: Angel's Watch

Condition: The Organization was unable to provide supporting documentation utilized in the preparation of interim and annual reports filed with the State of N.C.

Auditor's Recommendation: Develop and implement quality control procedures to ensure timely and accurate reporting to the State of N.C. and required record retention policies are followed.

Current Status: This item was remediated.

Finding 2017-003: Level of Effort - Significant Deficiency

Impacted Program: State Agency: N.C. Department of Health and Human Services
Program: Angel's Watch

Condition: The Organization was unable to provide supporting documentation utilized in the preparation of monthly reporting of grant results.

Auditor's Recommendation: Develop and implement quality control procedures to ensure timely and accurate documentation is maintained of level of effort outcomes.

Current Status: This item was remediated.



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The Board of Directors
Eckerd Connects:

Report on Combined Financial Statements

We have audited the combined financial statements of Eckerd Connects as of and for the year ended June 30, 2018, and have issued our report thereon dated December 12, 2018.

Auditor's Responsibility

We conducted our audit in accordance with auditing standards generally accepted in the United States; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; 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), Chapter 10.650, *Rules of the State of Florida Auditor General*, and the *North Carolina State Single Audit Implementation Act*.

Other Reports and Schedule

We have issued our Independent Auditor's Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Combined Financial Statements Performed in Accordance with *Government Auditing Standards*, our Independent Auditor's Report on Compliance for Each Major Federal Program and State Financial Assistance Project and on Internal Control Over Compliance Required by the Uniform Guidance, Chapter 10.650, *Rules of the State of Florida Auditor General* and the *North Carolina State Single Audit Implementation Act*, and the Schedule of Findings and Questioned Costs. Disclosures in those reports and schedule, which are dated December 12, 2018, should be considered in conjunction with this management letter.

Other Matter

Section 10.654(1)(e), *Rules of the State of Florida Auditor General*, requires that we address noncompliance with provisions of contracts or grant agreements, or abuse, that have occurred, or are likely to have occurred, that have an effect on the combined financial statements or State Project amounts that is less than material but which warrants the attention of those charged with governance. In connection with our audit, we did not identify any such findings.

Our management letter is intended solely for the information and use of the Legislative Auditing Committee, members of the Florida Senate and the Florida House of Representatives, the Florida Auditor General, Federal and other granting agencies, and applicable management and is not intended to be and should not be used by anyone other than these specified parties.

Mayer Hoffman McCann P.C.

December 12, 2018
Clearwater, Florida



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