

**McGladrey & Pullen**

Certified Public Accountants

**The Children's Home Society of Florida and  
Subsidiaries**

Consolidated Financial Report  
June 30, 2008

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# McGladrey & Pullen

Certified Public Accountants

## Independent Auditor's Report

To the Audit Committee  
The Children's Home Society of Florida  
Winter Park, Florida

We have audited the accompanying consolidated statements of financial position of The Children's Home Society of Florida and Subsidiaries as of June 30, 2008 and 2007, and the related consolidated statements of activities, functional expenses and cash flows for the years then ended. These consolidated financial statements are the responsibility of The Children's Home Society of Florida and Subsidiaries' management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of The Children's Home Society of Florida and Subsidiaries as of June 30, 2008 and 2007, and the changes in their net assets and their cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated October 30, 2008 on our consideration of The Children's Home Society of Florida's internal control over financial reporting and 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 the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

*McGladrey & Pullen, LLP*

Orlando, Florida  
October 30, 2008

The Children's Home Society of Florida and Subsidiaries

Consolidated Statements of Financial Position  
June 30, 2008 and 2007

	2008	2007
<b>Assets</b>		
Cash and cash equivalents	\$ 12,708,869	\$ 12,924,084
Accounts receivable, net	12,953,294	13,530,724
Prepaid expenses and other assets	1,877,275	1,997,591
Investments	5,594,477	5,373,535
Restricted cash and cash equivalents	3,301,550	352,584
Property and equipment, net	37,330,701	35,414,128
Goodwill	898,813	-
<b>Total assets</b>	<b>\$ 74,664,979</b>	<b>\$ 69,592,646</b>
<b>Liabilities and Net Assets</b>		
<b>Liabilities</b>		
Accounts payable	\$ 1,571,823	\$ 3,147,868
Accrued expenses	9,942,925	9,379,186
Pension liability	8,149,292	4,775,214
Held in custody for account of others	658,891	757,951
Deferred revenue and other liabilities	999,944	1,187,539
Capital lease obligations	629,944	498,865
Long-term debt	18,669,549	13,380,183
<b>Total liabilities</b>	<b>40,622,368</b>	<b>33,126,806</b>
<b>Net Assets</b>		
Unrestricted	33,437,002	35,838,294
Temporarily restricted	605,609	627,546
<b>Total net assets</b>	<b>34,042,611</b>	<b>36,465,840</b>
<b>Total liabilities and net assets</b>	<b>\$ 74,664,979</b>	<b>\$ 69,592,646</b>

See Notes to Consolidated Financial Statements.

The Children's Home Society of Florida and Subsidiaries

Consolidated Statements of Activities  
Years Ended June 30, 2008 and 2007

	2008	2007
Changes in unrestricted net assets:		
Public support:		
United Way	\$ 2,540,851	\$ 2,882,919
Bequests, contributions, and special events	11,888,933	12,519,083
Contribution income from The Children's Home Society of Florida Foundation, Inc.	428,086	398,258
<b>Total public support</b>	<b>14,857,870</b>	<b>15,800,260</b>
Revenue from service contracts	98,420,505	101,550,785
Adoptive and other service fees	1,529,648	1,088,919
Investment income	488,044	545,947
Realized loss on sale of investments	(156,055)	(18,784)
Change in unrealized (depreciation) appreciation of investments	(19,161)	455,606
Other revenue	761,735	1,255,630
<b>Total public support and unrestricted revenues</b>	<b>115,882,586</b>	<b>120,678,363</b>
Net assets released from restrictions by satisfaction of program restrictions	445,033	421,379
<b>Total public support, unrestricted revenues and other support</b>	<b>116,327,619</b>	<b>121,099,742</b>
Expenses:		
Program services	95,792,282	98,901,954
Supporting services	17,505,720	20,766,693
<b>Total expenses</b>	<b>113,298,002</b>	<b>119,668,647</b>
<b>Increase in unrestricted net assets</b>	<b>3,029,617</b>	<b>1,431,095</b>
Changes in temporarily restricted net assets:		
Bequests and contributions	423,096	441,182
Net assets released from restrictions by satisfaction of program restrictions	(445,033)	(421,379)
<b>(Decrease) increase in temporarily restricted net assets</b>	<b>(21,937)</b>	<b>19,803</b>
Other changes:		
Unrealized (loss) gain on interest rate swap	(552,600)	2,900
Pension expense	(4,878,309)	-
<b>(Decrease) increase in other changes</b>	<b>(5,430,909)</b>	<b>2,900</b>
<b>(Decrease) increase in net assets before effect of adoption of FASB Statement No. 158 (Notes 1 and 10)</b>	<b>(2,423,229)</b>	<b>1,453,798</b>
Effect of adoption of recognition provisions of FASB Statement No. 158 (Notes 1 and 10)	-	(2,738,617)
<b>Decrease in net assets</b>	<b>(2,423,229)</b>	<b>(1,284,819)</b>
Net assets:		
Beginning	36,465,840	37,750,659
Ending	<b>\$ 34,042,611</b>	<b>\$ 36,465,840</b>

See Notes to Consolidated Financial Statements.

The Children's Home Society of Florida and Subsidiaries

Consolidated Statement of Functional Expenses  
Year Ended June 30, 2008

	Program Services						
	Training	Independent Living For Youth	Family Life Education	Adoption and Inter-Country Adoption	Pregnancy Counseling/ Support	Home Visitor Service	Early Intervention Services
Salaries	\$ 1,352,384	\$ 232,956	\$ 1,941,653	\$ 3,847,198	\$ 209,661	\$ 4,093,825	\$ 778,192
Employee benefits	183,359	35,231	263,812	519,254	37,754	623,903	125,399
Payroll taxes and other	117,780	19,259	166,741	379,841	16,770	348,403	71,488
<b>Total salaries and related expenses</b>	<b>1,653,523</b>	<b>287,446</b>	<b>2,372,206</b>	<b>4,746,293</b>	<b>264,185</b>	<b>5,066,131</b>	<b>975,079</b>
Professional fees	35,953	909	429,540	124,728	366	737,726	47,818
Supplies	22,289	2,174	27,148	39,339	1,507	90,183	8,830
Telephone	23,541	12,777	58,449	91,755	3,907	147,429	13,747
Postage and shipping	2,589	1,587	8,076	14,062	609	23,505	3,802
Occupancy	71,844	28,716	296,670	440,587	15,728	440,288	192,549
Rental and maintenance of equipment	36,804	9,969	44,718	71,158	5,935	115,746	14,102
Printing and publications	3,751	679	11,538	65,542	4,971	12,958	5,765
Travel	103,309	21,018	133,659	335,987	7,524	350,479	48,279
Conferences, conventions and meetings	(2,781)	1,053	13,438	10,663	2,352	7,491	1,174
Specific assistance to individuals	2,143	18,916	97,083	297,815	27,061	104,009	796,448
Membership dues	837	45	794	367	143	1,789	203
Interest	472	-	26	259	6	2,162	-
Insurance	5,150	1,774	12,889	93,080	1,106	35,578	6,351
Provision for bad debt	-	-	-	-	-	-	-
Contributed goods	207	2,979	107,066	145,781	14,137	142,616	235
Other	6,665	6,822	43,838	79,147	2,979	76,334	19,163
<b>Total before depreciation and amortization</b>	<b>312,773</b>	<b>109,418</b>	<b>1,284,932</b>	<b>1,810,270</b>	<b>88,331</b>	<b>2,288,293</b>	<b>1,158,466</b>
Depreciation and amortization	57,299	4,785	26,614	57,998	1,327	44,761	4,111
<b>Total expenses</b>	<b>\$ 2,023,595</b>	<b>\$ 401,649</b>	<b>\$ 3,683,752</b>	<b>\$ 6,614,561</b>	<b>\$ 353,843</b>	<b>\$ 7,399,185</b>	<b>\$ 2,137,656</b>

See Notes to Consolidated Financial Statements.

The Children's Home Society of Florida and Subsidiaries

Consolidated Statement of Functional Expenses (Continued)  
Year Ended June 30, 2008

	Program Services						
	Daycare	Case Management/ Development Services	Case Management, Mental Health	Home-Based Family Centered Casework	Homemaker Preservation	Intensive Family Preservation	Emergency Shelter/ Runaway
Salaries	\$ 996,154	\$ 15,651,086	\$ 6,807,262	\$ 739,864	\$ 660,160	\$ 4,001,149	\$ 3,451,991
Employee benefits	91,759	2,098,585	929,743	86,388	133,118	534,710	433,686
Payroll taxes and other	87,263	1,330,918	607,632	64,040	52,688	348,229	314,495
<b>Total salaries and related expenses</b>	<b>1,175,176</b>	<b>19,080,589</b>	<b>8,344,637</b>	<b>890,292</b>	<b>845,966</b>	<b>4,884,088</b>	<b>4,200,172</b>
Professional fees	81,110	161,576	338,411	30,789	1,948	15,207	113,778
Supplies	13,310	119,460	80,443	5,924	8,952	39,114	26,415
Telephone	23,963	338,584	156,709	22,959	24,380	121,920	85,841
Postage and shipping	2,746	44,594	21,517	1,317	1,499	10,881	8,875
Occupancy	145,585	900,301	1,014,172	86,564	120,668	416,084	548,968
Rental and maintenance of equipment	12,840	204,134	111,537	20,059	24,636	81,802	75,885
Printing and publications	7,166	19,720	10,433	1,318	1,221	32,350	7,361
Travel	31,532	1,434,075	517,398	44,230	64,521	319,635	162,267
Conferences, conventions and meetings	2,721	15,176	15,055	4,213	598	9,109	8,004
Specific assistance to individuals	139,312	1,151,565	334,201	40,405	4,726	128,494	409,593
Membership dues	145	1,578	10,177	150	130	345	16,619
Interest	36,655	18	42	-	-	44	28,484
Insurance	10,334	436,624	155,815	5,340	5,400	27,063	30,792
Provision for bad debt	-	-	-	-	-	-	-
Contributed goods	4,276	36,519	24,889	4,693	11,011	135,084	104,535
Other	13,498	245,862	119,197	12,319	9,341	73,621	73,080
<b>Total before depreciation and amortization</b>	<b>525,193</b>	<b>5,109,786</b>	<b>2,909,996</b>	<b>280,280</b>	<b>279,031</b>	<b>1,410,753</b>	<b>1,700,477</b>
Depreciation and amortization	14,908	136,250	33,172	17,662	5,309	36,986	144,387
<b>Total expenses</b>	<b>\$ 1,715,277</b>	<b>\$ 24,326,625</b>	<b>\$ 11,287,805</b>	<b>\$ 1,188,234</b>	<b>\$ 1,130,306</b>	<b>\$ 6,333,827</b>	<b>\$ 6,045,036</b>

See Notes to Consolidated Financial Statements.

The Children's Home Society of Florida and Subsidiaries

Consolidated Statement of Functional Expenses (Continued)  
Year Ended June 30, 2008

	Program Services					Supporting Services				
	Foster Care Services	Family Visitation Center	Group Care	Community Organization	Total Program Services	Management and General	Fund Raising	Supporting Services	Total Functional Expenses	
Salaries	\$ 3,987,394	\$ 543,640	\$ 5,436,357	\$ 927,897	\$ 55,658,823	\$ 7,156,774	\$ 1,707,496	\$ 8,864,270	\$ 64,523,093	
Employee benefits	523,749	92,218	740,592	131,567	7,584,827	(715,747)	228,983	(486,764)	7,098,063	
Payroll taxes and other	360,738	43,869	494,194	76,153	4,900,501	638,236	137,664	775,900	5,676,401	
Total salaries and related expenses	4,871,881	679,727	6,671,143	1,135,617	68,144,151	7,079,263	2,074,143	9,153,406	77,297,557	
Professional fees	272,592	21,787	120,132	79,626	2,613,996	441,496	213,892	655,388	3,269,384	
Supplies	44,932	5,997	38,483	27,243	601,743	103,350	47,719	151,069	752,812	
Telephone	105,974	26,074	147,839	27,154	1,433,002	328,883	62,409	391,292	1,824,294	
Postage and shipping	15,894	1,044	16,841	20,326	199,764	67,296	36,245	103,541	303,305	
Occupancy	286,073	119,350	930,572	93,421	6,148,140	111,859	194,547	306,406	6,454,546	
Rental and maintenance of equipment	97,489	24,685	160,985	19,179	1,131,643	(24,872)	47,497	22,625	1,154,268	
Printing and publications	20,923	937	6,668	140,567	353,868	31,488	138,894	170,382	524,250	
Travel	284,670	39,725	365,726	27,108	4,291,142	493,545	105,381	598,926	4,890,068	
Conferences, conventions and meetings	7,783	891	20,156	11,212	128,308	99,290	55,879	155,169	283,477	
Specific assistance to individuals	1,671,487	3,170	767,293	4,268	5,997,989	14,156	21,339	35,495	6,033,484	
Membership dues	278	230	629	3,483	37,942	69,908	3,874	73,782	111,724	
Interest	4,185	4,072	44,173	162	120,760	1,379,056	71	1,379,127	1,499,887	
Insurance	104,352	5,511	53,091	4,916	995,166	39,476	7,296	46,772	1,041,938	
Provision for bad debt	-	-	-	-	-	1,396,586	-	1,396,586	1,396,586	
Contributed goods	64,699	36,238	306,709	100	1,141,774	676,885	174,966	851,851	1,993,625	
Other	120,815	92,705	291,293	99,127	1,385,806	(40,584)	841,424	800,840	2,186,646	
Total before depreciation and amortization	3,102,146	382,416	3,270,590	557,892	26,581,043	5,187,818	1,951,433	7,139,251	33,720,294	
Depreciation and amortization	105,373	30,463	328,247	15,436	1,067,088	1,171,914	41,149	1,213,063	2,280,151	
Total expenses	\$ 8,079,400	\$ 1,092,606	\$ 10,269,980	\$ 1,708,945	\$ 95,792,282	\$ 13,438,995	\$ 4,066,725	\$ 17,505,720	\$ 113,298,002	

See Notes to Consolidated Financial Statements.

The Children's Home Society of Florida and Subsidiaries

Consolidated Statement of Functional Expenses  
Year Ended June 30, 2007

	Program Services						
	Independent Living For Youth	Family Life Education	Adoption and Inter-Country Adoption	Pregnancy Counseling/ Support	Home Visitor Service	Early Intervention Services	
Salaries	\$ 1,422,923	\$ 304,736	\$ 2,475,283	\$ 3,828,311	\$ 112,454	\$ 3,501,940	\$ 814,914
Employee benefits	163,271	44,518	320,095	506,087	15,923	538,157	111,135
Payroll taxes and other	142,587	27,093	238,734	348,183	9,729	316,385	70,919
<b>Total salaries and related expenses</b>	<b>1,728,781</b>	<b>376,347</b>	<b>3,034,112</b>	<b>4,682,581</b>	<b>138,106</b>	<b>4,356,482</b>	<b>996,968</b>
Professional fees	80,324	14,410	264,090	133,742	464	705,692	50,713
Supplies	24,114	2,407	33,760	39,605	1,041	51,682	12,131
Telephone	58,608	17,652	76,177	109,439	2,726	141,105	11,628
Postage and shipping	7,301	1,408	10,224	13,480	468	16,477	4,634
Occupancy	38,849	48,375	350,903	440,889	12,777	455,449	148,852
Rental and maintenance of equipment	30,202	34,715	46,916	69,425	2,433	86,096	9,470
Printing and publications	15,992	5,637	67,640	62,649	281	16,593	3,971
Travel	150,374	35,681	152,916	325,347	2,827	308,623	35,803
Conferences, conventions and meetings	(236,520)	2,961	22,405	21,210	1,176	33,237	4,954
Specific assistance to individuals	3,310	77,023	143,588	229,828	50,018	87,598	666,730
Membership dues	205	591	855	1,237	32	3,567	432
Interest	313	-	3,373	786	-	1,731	-
Insurance	7,317	2,398	18,457	100,357	882	35,193	6,862
Provision for bad debt	-	-	-	-	-	-	-
Contributed goods	-	1,077	46,564	58,876	33,867	154,375	1,520
Other	259,167	3,325	63,808	51,993	3,111	25,191	5,040
<b>Total before depreciation and amortization</b>	<b>439,556</b>	<b>247,660</b>	<b>1,301,676</b>	<b>1,658,863</b>	<b>112,073</b>	<b>2,122,609</b>	<b>962,740</b>
Depreciation and amortization	43,077	6,453	32,899	41,876	940	34,567	5,902
<b>Total expenses</b>	<b>\$ 2,211,414</b>	<b>\$ 630,460</b>	<b>\$ 4,368,687</b>	<b>\$ 6,383,320</b>	<b>\$ 251,119</b>	<b>\$ 6,513,658</b>	<b>\$ 1,965,610</b>

See Notes to Consolidated Financial Statements.

The Children's Home Society of Florida and Subsidiaries

Consolidated Statement of Functional Expenses (Continued)  
Year Ended June 30, 2007

	Program Services						
	Daycare	Case Management/ Development Services	Case Management, Mental Health	Home-Based Family Centered Casework	Homemaker	Intensive Family Preservation	Emergency Shelter/ Runaway
Salaries	\$ 443,985	\$ 15,563,957	\$ 7,983,670	\$ 794,193	\$ 642,587	\$ 3,311,412	\$ 3,782,129
Employee benefits	60,791	1,963,752	962,322	96,079	114,444	421,357	406,393
Payroll taxes and other	44,344	1,436,698	753,652	81,012	62,663	295,575	361,832
<b>Total salaries and related expenses</b>	<b>549,120</b>	<b>18,964,407</b>	<b>9,699,644</b>	<b>971,284</b>	<b>819,694</b>	<b>4,028,344</b>	<b>4,550,354</b>
Professional fees	11,445	233,606	936,142	69,979	2,858	21,961	114,380
Supplies	4,104	124,514	79,741	10,122	9,220	37,335	34,749
Telephone	8,029	430,573	163,724	26,172	29,296	122,161	81,577
Postage and shipping	1,172	53,082	28,150	1,327	1,951	7,201	9,564
Occupancy	92,620	960,367	1,128,998	96,489	113,845	328,338	536,883
Rental and maintenance of equipment	11,616	159,899	139,045	16,524	27,143	95,501	72,874
Printing and publications	2,188	25,936	13,711	1,903	1,519	15,231	28,031
Travel	31,871	1,513,429	616,719	52,225	59,230	294,648	176,594
Conferences, conventions and meetings	1,753	66,727	42,108	5,417	3,302	33,040	46,141
Specific assistance to individuals	32,959	1,230,449	510,899	44,839	3,537	232,359	459,569
Membership dues	15	2,136	8,129	5,163	323	355	12,442
Interest	2,770	-	46	-	-	-	24,241
Insurance	3,936	473,938	189,116	6,509	5,714	24,939	35,370
Provision for bad debt	-	(139)	-	-	-	-	-
Contributed goods	19,150	101,441	46,597	33,827	5,250	154,605	184,894
Other	7,693	153,959	69,451	9,616	4,890	20,627	41,908
<b>Total before depreciation and amortization</b>	<b>231,321</b>	<b>5,529,917</b>	<b>3,972,576</b>	<b>380,112</b>	<b>268,078</b>	<b>1,388,301</b>	<b>1,859,217</b>
Depreciation and amortization	7,824	159,591	40,328	15,409	7,485	23,362	155,104
<b>Total expenses</b>	<b>\$ 788,265</b>	<b>\$ 24,653,915</b>	<b>\$ 13,712,548</b>	<b>\$ 1,366,805</b>	<b>\$ 1,095,257</b>	<b>\$ 5,440,007</b>	<b>\$ 6,564,675</b>

See Notes to Consolidated Financial Statements.

The Children's Home Society of Florida and Subsidiaries

Consolidated Statement of Functional Expenses (Continued)  
Year Ended June 30, 2007

	Program Services					Supporting Services					Total Functional Expenses
	Foster Care Services	Family Visitation Center	Group Care	Community Organization	Total Program Services	Management and General	Fund Raising	Supporting Services	Total		
Salaries	\$ 4,187,683	\$ 504,208	\$ 6,599,376	\$ 877,716	\$ 57,151,477	\$ 8,379,948	\$ 1,490,127	\$ 9,870,075	\$ 9,870,075	\$ 67,021,552	
Employee benefits	527,544	76,509	807,239	104,404	7,240,020	164,280	190,003	354,283	354,283	7,594,303	
Payroll taxes and other	391,456	54,198	617,099	81,118	5,333,277	747,137	133,951	881,088	881,088	6,214,365	
<b>Total salaries and related expenses</b>	<b>5,106,683</b>	<b>634,915</b>	<b>8,023,714</b>	<b>1,063,238</b>	<b>69,724,774</b>	<b>9,291,365</b>	<b>1,814,081</b>	<b>11,105,446</b>	<b>11,105,446</b>	<b>80,830,220</b>	
Professional fees	260,596	25,282	159,963	98,649	3,184,296	450,223	204,007	654,230	654,230	3,838,526	
Supplies	45,350	8,203	44,536	33,293	595,907	133,893	33,949	167,842	167,842	763,749	
Telephone	128,632	26,864	182,121	22,351	1,638,835	319,090	56,271	375,361	375,361	2,014,196	
Postage and shipping	13,092	1,219	18,773	21,685	211,208	86,292	57,621	143,913	143,913	355,121	
Occupancy	298,043	87,143	995,207	77,794	6,211,821	146,501	168,169	314,670	314,670	6,526,491	
Rental and maintenance of equipment	56,062	10,992	134,511	10,509	1,013,933	125,718	95,966	221,684	221,684	1,235,617	
Printing and publications	27,449	862	8,022	123,838	421,423	67,750	84,026	151,776	151,776	573,199	
Travel	298,697	57,441	405,187	25,648	4,543,260	581,866	88,997	670,863	670,863	5,214,123	
Conferences, conventions and meetings	18,523	3,545	108,832	5,016	183,827	142,996	8,359	151,355	151,355	335,182	
Specific assistance to individuals	2,015,422	2,254	939,150	2,909	6,732,441	270	9,550	9,820	9,820	6,742,261	
Membership dues	744	510	1,051	1,455	39,242	54,788	4,474	59,262	59,262	98,504	
Interest	6,021	3,463	43,243	259	86,246	553,519	1,355	554,874	554,874	641,120	
Insurance	112,873	5,925	57,173	5,272	1,092,231	45,112	8,944	54,056	54,056	1,146,287	
Provision for bad debt	-	-	-	-	(139)	970,958	-	970,958	970,958	970,819	
Contributed goods	68,914	9,662	330,571	698	1,251,888	1,412,114	735,433	2,147,547	2,147,547	3,399,435	
Other	64,550	79,014	93,348	25,336	982,027	333,893	1,831,900	2,165,793	2,165,793	3,147,820	
<b>Total before depreciation and amortization</b>	<b>3,414,968</b>	<b>322,379</b>	<b>3,521,688</b>	<b>454,712</b>	<b>28,188,446</b>	<b>5,424,993</b>	<b>3,389,021</b>	<b>8,814,004</b>	<b>8,814,004</b>	<b>37,002,450</b>	
Depreciation and amortization	78,348	29,208	292,902	13,459	988,734	810,567	36,676	847,243	847,243	1,835,977	
<b>Total expenses</b>	<b>\$ 8,599,999</b>	<b>\$ 986,502</b>	<b>\$ 11,838,304</b>	<b>\$ 1,531,409</b>	<b>\$ 98,901,954</b>	<b>\$ 15,526,915</b>	<b>\$ 5,239,778</b>	<b>\$ 20,766,693</b>	<b>\$ 20,766,693</b>	<b>\$ 119,668,647</b>	

See Notes to Consolidated Financial Statements.

The Children's Home Society of Florida and Subsidiaries

Consolidated Statements of Cash Flows  
Years Ended June 30, 2008 and 2007

	2008	2007
<b>Cash Flows From Operating Activities</b>		
Decrease in net assets	\$ (2,423,229)	\$ (1,284,819)
Adjustments to reconcile decrease in net assets to net cash provided by operating activities:		
Depreciation and amortization	2,280,151	1,835,977
Write-off of deferred financing costs	538,454	-
Change in unrealized depreciation (appreciation) of investments	19,161	(455,606)
Change in unrealized loss (gain) on interest rate swap	552,600	(2,900)
Provision for pension liability	3,374,078	2,738,617
Realized loss on the sale of investments	156,055	18,784
Contribution of property and equipment	(391,200)	(31,000)
Loss (gain) on sale of property and equipment	52,476	(8,653)
Provision for doubtful accounts	(714,085)	302,868
Changes in operating assets and liabilities:		
Accounts receivable	1,291,515	7,934,359
Prepaid expenses and other assets	(162,083)	437,221
Accounts payable	(1,207,677)	(193,475)
Accrued expense	11,139	(26,291)
Deferred revenue and other liabilities	(187,595)	(2,204,388)
<b>Net cash provided by operating activities</b>	<b>3,189,760</b>	<b>9,060,694</b>
<b>Cash Flows From Investing Activities</b>		
Increase in restricted cash and cash equivalents	(2,948,966)	(241,035)
Purchases of property and equipment	(1,869,499)	(3,539,469)
Purchase of childcare facilities	(3,100,000)	-
Proceeds from sale of property and equipment	114,834	115,097
Proceeds from sale of investments	2,251,592	504,532
Purchases of investments	(2,647,750)	(856,636)
<b>Net cash used in investing activities</b>	<b>(8,199,789)</b>	<b>(4,017,511)</b>
<b>Cash Flows From Financing Activities</b>		
Payments for deferred financing costs	(286,833)	-
Principal payments on capital lease obligations	(207,719)	(101,229)
Proceeds from long-term debt	16,680,000	1,814,214
Principal payments on long-term debt	(11,390,634)	(275,123)
<b>Net cash provided by financing activities</b>	<b>4,794,814</b>	<b>1,437,862</b>
<b>Net (decrease) increase in cash and cash equivalents</b>	<b>(215,215)</b>	<b>6,481,045</b>
Cash and cash equivalents:		
Beginning	12,924,084	6,443,039
Ending	<b>\$ 12,708,869</b>	<b>\$ 12,924,084</b>

(Continued)

The Children's Home Society of Florida and Subsidiaries

Consolidated Statements of Cash Flows (Continued)  
Years Ended June 30, 2008 and 2007

	2008	2007
<hr/>		
Supplemental Disclosures of Cash Flow Information		
Cash paid during the year for interest, net of \$0 and \$82,253 capitalized interest for the years ended June 30, 2008 and 2007, respectively	<u>\$ 953,382</u>	<u>\$ 634,696</u>
Supplemental Disclosure of Non-Cash Investing and Financing Activities		
Assets acquired under capital lease obligations	<u>\$ 338,798</u>	<u>\$ 236,446</u>
Property and equipment included in accounts payable	<u>\$ 119,834</u>	<u>\$ 488,202</u>

See Notes to Consolidated Financial Statements.

## The Children's Home Society of Florida and Subsidiaries

### Notes to Consolidated Financial Statements

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#### Note 1. Nature of Organization, Principles of Consolidation and Significant Accounting Policies

Nature of organization: The Children's Home Society of Florida and Subsidiaries (collectively CHS) is a not-for-profit organization, which provides effective solutions to build and support healthy families for Florida's children.

Principles of consolidation: The consolidated financial statements of CHS include the accounts of CHS and Centennial Holdings, LLC (Centennial), Centennial Finance, LLC (Centennial Finance), Centennial Holdings – Treasure Coast, LLC (Treasure Coast), Centennial Holdings North Central, LLC (North Central), ECIL Capital, LLC (ECIL), Centennial Holdings Southwest, LLC (Southwest), Centennial Holdings Collier Childcare, LLC (Collier), and Children's Home Society Early Learning Initiatives, LLC (Early Learning), each a wholly owned subsidiary of CHS. Centennial was incorporated on August 11, 2003, for the purpose of holding certain real estate assets. Centennial Finance was incorporated on January 28, 2005, for the purpose of managing and administering a line of credit for certain unrelated third party agencies. Treasure Coast was incorporated on May 11, 2005, for the purpose of holding certain real estate assets. North Central was incorporated on June 22, 2006, for the purpose of holding certain real estate assets. ECIL was incorporated on June 22, 2006, for the purpose of holding office furniture and equipment. Southwest was incorporated on March 19, 2007, for the purpose of holding certain real estate assets. Collier was incorporated on August 30, 2007, for the purpose of holding certain real estate assets. Early Learning was incorporated on August 30, 2007, for the purpose of holding vehicles and furniture and fixtures. All intercompany balances have been eliminated in consolidation.

A summary of CHS' significant accounting policies follows:

Basis of presentation: The accompanying consolidated financial statements have been prepared on the accrual basis of accounting.

CHS follows the provisions of Financial Accounting Standards Board (FASB) Statement of Financial Accounting Standards No. (Statement) 116, *Accounting for Contributions Received and Contributions Made* and the provisions of Statement 117, *Financial Statements of Not-for-Profit Organizations*. Under Statement 117, CHS is required to report information regarding its financial position and activities according to three classes of net assets: unrestricted, temporarily restricted, and permanently restricted. Accordingly, net assets of CHS and changes therein are classified and reported as follows:

Unrestricted net assets – Net assets that are not subject to donor-imposed stipulations.

Temporarily restricted net assets – Net assets subject to donor-imposed stipulations that will be met, either by actions of CHS and/or the passage of time.

Permanently restricted net assets – Net assets subject to donor-imposed stipulations that will not be met by either the actions of CHS or the passage of time. CHS has no permanently restricted net assets.

Cash and cash equivalents: CHS considers cash on hand, cash held in banks and certificates of deposit with original maturities of 90 days or less to be cash and cash equivalents. Certain amounts are not insured under Federal Deposit Insurance Corporation regulations.

## The Children's Home Society of Florida and Subsidiaries

### Notes to Consolidated Financial Statements

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#### Note 1. Nature of Organization, Principles of Consolidation and Significant Accounting Policies (Continued)

Restricted cash and cash equivalents: Restricted cash and cash equivalents represent cash and cash equivalents held by CHS that is restricted to a specific program, cash and cash equivalents held as collateral for an unrelated community based care agency's line of credit and bond proceeds received for the construction of facilities.

Investments and investment income: CHS accounts for investments in accordance with the provisions of Statement 124, *Accounting for Certain Investments Held by Not-for-Profit Organizations*. Investments in equity securities with readily determinable fair values and all investments in debt securities are stated at fair value. Gains and losses on investments are reported in the consolidated statements of activities as increases or decreases in unrestricted net assets unless their use is temporarily or permanently restricted by explicit donor stipulations or by law. Dividend, interest, and other investment income are reported in the period earned as increases in unrestricted net assets unless the use of the assets received is limited by donor restrictions.

Property and equipment: Property and equipment is capitalized at cost when purchased, or at fair value at the date of gift, if contributed. Depreciation is computed on the straight-line method over the estimated useful lives of the assets. The lives of the various assets range from 3 to 40 years. The cost of assets retired or sold, together with the related accumulated depreciation, is removed from the accounts and any gain or loss is recognized. Expenditures for major renewals and betterments that extend the useful lives of property and equipment are capitalized. Expenditures for maintenance and repairs are charged to expense as incurred. The cost of leasehold improvements on leased office space is capitalized and amortized using the straight-line method over the term of the lease, or the useful life of the improvement, whichever is shorter.

Assets held under capital leases are recorded at the lower of the fair market value of the asset or the present value of future minimum lease payments and are amortized using the straight-line method over their estimated useful lives.

Impairment of long-lived assets: The carrying value of property and equipment is reviewed for impairment whenever events or changes in circumstances indicate such value may not be recoverable. Recoverability of assets to be held and used is measured by a comparison of the carrying amount of an asset to future net cash flows expected to be generated by the asset. If such assets are considered to be impaired, the impairment to be recognized is measured by the amount by which the carrying amount of the assets exceeds the fair value of the assets. Assets to be disposed of are reported at the lower of the carrying amount or fair value less cost to sell. CHS believes no impairment of its long-lived assets existed at June 30, 2008 and 2007.

Goodwill: Statement 142, *Goodwill and Intangible Assets*, requires that goodwill no longer be amortized, but instead be tested for impairment at least annually. Management is of the opinion that the carrying amounts of its goodwill do not exceed their estimated recoverable amounts.

Deferred revenue and other liabilities: Funds received for programs that have not been started or have not met the requirements for recognizing revenue based on services performed are recorded as deferred revenue. Other liabilities consist primarily of reserves for potential Medicaid audit adjustments.

## The Children's Home Society of Florida and Subsidiaries

### Notes to Consolidated Financial Statements

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#### Note 1. Nature of Organization, Principles of Consolidation and Significant Accounting Policies (Continued)

CHS receives certain service contract revenues from public agencies, which are recorded on an accrual basis at the net realizable amounts estimated to be received. Revenues from public agencies are subject to periodic audit and retroactive adjustments. Retroactive adjustments are considered in the recognition of revenue on an estimated basis in the year the related services are rendered, and such amounts are adjusted in future periods as adjustments become known or as years are no longer subject to such audits, reviews, and investigations. Laws and regulations governing the Medicaid program are extremely complex and subject to interpretation. As a result, there is at least a reasonable possibility that recorded estimates will change by a material amount in the near term.

Public support and revenue recognition: CHS recognizes contributions received, including unconditional promises to give, as assets and revenue in the period received at their fair values. All contributions are considered to be available for unrestricted use unless specifically restricted by the donor. Gifts of cash and other assets are reported as either temporarily restricted or permanently restricted support if they are received with donor stipulations that limit the use of such assets. When donor restrictions expire, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the consolidated statements of activities as net assets released from restrictions by satisfaction of program restrictions.

Contributed services: In accordance with Statement 116, *Accounting for Contributions Received and Contributions Made*, contributed services are recognized and recorded only to the extent they create or enhance nonfinancial assets or require specialized skills, are provided by individuals possessing these skills, and would typically need to be purchased if not provided by donations. Contributed services recognized in the consolidated statements of activities were approximately \$215,100 and \$40,300 for the years ended June 30, 2008 and 2007, respectively.

Derivatives: CHS recognizes all derivatives in the consolidated statements of financial position at fair value, which is included as a component of accrued expenses. CHS has identified the interest rate swaps, obtained in conjunction with the bonds payable (see Note 7), as derivatives.

Functional expenses: The cost of providing various programs and supporting services have been summarized on a functional basis in the consolidated statements of activities and in the consolidated statements of functional expenses. Accordingly, certain costs have been allocated among the various programs and supporting services benefited.

Use of estimates: The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America 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.

Income taxes: CHS is exempt from federal income taxes under Section 501(c)(3) of the Internal Revenue Code and from state income taxes under similar provisions of the Florida Statutes. Accordingly, no provision for federal and state income taxes has been recorded in the accompanying consolidated financial statements.

## The Children's Home Society of Florida and Subsidiaries

### Notes to Consolidated Financial Statements

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#### Note 1. Nature of Organization, Principles of Consolidation and Significant Accounting Policies (Continued)

Fair value of financial instruments: At June 30, 2008 and 2007, CHS' financial instruments consist of cash and cash equivalents, accounts receivable, investments, restricted cash and cash equivalents, accounts payable, interest rate swaps, bonds payable, and other borrowings. The fair values of CHS' financial instruments excluding interest rate swaps, bonds payable, other borrowings and investments approximate their fair values because of the short-term nature of these instruments. Investments are stated at fair value based on quoted market prices. Borrowings at variable interest rates are estimated by management to be at the fair value due to the floating interest rate based on market factors. Notes payable at fixed rates are estimated by CHS to be at fair value based upon similar credit risk comparisons available to CHS at June 30, 2008 and 2007.

Accounting change: In September 2006, the FASB issued Statement 158, Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans, which amends Statement 87, Employers' Accounting for Pensions, Statement 88, Employers' Accounting for Settlements and Curtailments of Defined Benefit Pension Plans and for Termination Benefits, Statement 106, Employers' Accounting for Postretirement Benefits Other Than Pensions, and Statement 132R, Employers' Disclosures about Pensions and Other Postretirement Benefits (revised 2003). This Statement requires companies and organizations to recognize an asset or liability for the overfunded or underfunded status of their benefit plans in their financial statements. Statement 158 also requires the measurement date for plan assets and liabilities to coincide with the sponsor's year end. CHS' measurement date is in compliance with Statement 158 and the adoption of Statement 158 with respect to making a change in measurement dates did not have an effect on the consolidated financial statements.

#### Note 2. Temporarily Restricted Net Assets

Temporarily restricted net assets as of June 30, 2008 and 2007, are available for the following purposes:

	2008	2007
Henry Training Fund	\$ 306,654	\$ 307,634
Children's Emergency Medical Services	234,111	234,860
Joshua House	60,976	61,172
President's Scholarship Fund	3,868	3,880
Amaturo Family Foundation Fund	-	20,000
	<u>\$ 605,609</u>	<u>\$ 627,546</u>

As of June 30, 2008 and 2007, net assets of \$445,033 and \$421,379 were released from donor restrictions by incurring expenses satisfying the restricted purposes or by occurrence of other events specified by donors.

The Children's Home Society of Florida and Subsidiaries

Notes to Consolidated Financial Statements

Note 3. Accounts Receivable

Accounts receivable consisted of the following at June 30, 2008 and 2007:

	2008	2007
Community based care	\$ 7,107,632	\$ 6,878,981
Government contracts	2,619,540	2,056,841
Pledges	1,756,386	1,507,695
Medicaid	1,419,100	3,986,685
Other	1,030,255	811,367
Adoptive fees	65,821	69,881
United Way	19,731	23,446
	<u>14,018,465</u>	<u>15,334,896</u>
Less allowance for doubtful accounts	(1,008,753)	(1,722,838)
Less discount for time-value of money	(56,418)	(81,334)
	<u>\$ 12,953,294</u>	<u>\$ 13,530,724</u>

Pledges that are included above and are considered unconditional promises to give at June 30, 2008 are summarized as follows:

Amounts due:	
Within one year	\$ 984,955
One to five years	716,431
More than five years	55,000
	<u>1,756,386</u>
Less allowance for doubtful accounts	(217,955)
Less discount for time-value of money	(56,418)
	<u>\$ 1,482,013</u>

The Children's Home Society of Florida and Subsidiaries

Notes to Consolidated Financial Statements

Note 4. Investments

Investments consisted of the following at June 30, 2008 and 2007:

Description	June 30, 2008		
	Cost	Net Unrealized Gain	Fair Value
Equity securities	\$ 2,783,901	\$ 459,153	\$ 3,243,054
Corporate bonds	134,234	3,638	137,872
U.S. Government obligations	2,175,869	37,682	2,213,551
	<u>\$ 5,094,004</u>	<u>\$ 500,473</u>	<u>\$ 5,594,477</u>

Description	June 30, 2007		
	Cost	Net Unrealized Gain (Loss)	Fair Value
Equity securities	\$ 2,643,352	\$ 564,608	\$ 3,207,960
Corporate bonds	193,696	1,631	195,327
U.S. Government obligations	2,016,853	(46,605)	1,970,248
	<u>\$ 4,853,901</u>	<u>\$ 519,634</u>	<u>\$ 5,373,535</u>

Note 5. Property and Equipment

Property and equipment consisted of the following at June 30, 2008 and 2007:

	2008	2007
Land	\$ 5,229,833	\$ 4,205,525
Buildings and improvements	32,855,789	29,219,119
Furniture and equipment	17,303,468	16,197,203
Leasehold improvements	1,045,915	1,081,422
Construction in progress	537,648	2,050,907
	<u>56,972,653</u>	<u>52,754,176</u>
Less accumulated depreciation	<u>(19,641,952)</u>	<u>(17,340,048)</u>
	<u>\$ 37,330,701</u>	<u>\$ 35,414,128</u>

Depreciation expense for the years ended June 30, 2008 and 2007, was approximately \$2,249,400 and \$1,809,500, respectively.

The Children's Home Society of Florida and Subsidiaries

Notes to Consolidated Financial Statements

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**Note 6. Accrued Expenses**

Accrued expenses consisted of the following at June 30, 2008 and 2007:

	<u>2008</u>	<u>2007</u>
Accrued salaries and benefits	\$ 5,358,188	\$ 5,265,238
Accrued vacation	3,142,412	3,050,333
Fair value of interest rate swap	1,107,100	554,500
Other	335,225	509,115
	<u>\$ 9,942,925</u>	<u>\$ 9,379,186</u>

CHS has a workers' compensation indemnity policy, whereby, CHS is responsible for the first \$500,000 of bodily injury due by accident or disease and \$1,750,000 for all bodily injury in the aggregate during the policy year, ending June 30<sup>th</sup> of each year. Included in accrued salaries and benefits is a workers' compensation liability, which represents the estimated amount due for open claims and claims incurred but not reported, totaling \$962,711 and \$1,184,178 at June 30, 2008 and 2007, respectively.

The Children's Home Society of Florida and Subsidiaries

Notes to Consolidated Financial Statements

Note 7. Long-Term Debt and Lines of Credit

Long-term debt and lines of credit consisted of the following at June 30, 2008 and 2007:

	2008	2007
Bonds payable dated April 1, 2008 with an original principal balance of \$16,680,000. The bonds bear interest at a fixed interest rate of 4.39% and 3.20% (see swap agreement disclosure below) and have a maturity date of May 1, 2038. The bonds are redeemable by CHS in whole or in part, and call for quarterly partial redemption payments deposited into an escrow account. The bonds are collateralized by a letter of credit (see Note 8).	\$ 16,585,000	\$ -
Bonds payable dated May 1, 2002 with an original principal balance of \$10 million. During 2008, the bonds were refinanced (see above).	-	9,180,000
Note payable dated January 5, 2005 with an original balance of \$2 million to finance eleven residential real estate properties. The note bears a fixed rate of interest at 7.25% and payments of principal and interest are due monthly. The note is collateralized by the eleven real estate properties located in the Miami-Dade, Florida area. The note matures in January 2010.	1,845,227	1,867,976
Mortgage payable with an original balance of \$247,000 dated November 15, 2005, payable to a bank; fixed rate of interest at 6.5%. Principal and interest payments are due monthly and the mortgage matures in November 2035. The mortgage is collateralized by property in Callaway, Florida.	239,322	242,363
Construction loan providing maximum advances of \$2,139,000 dated January 10, 2006, payable to a bank. In January 2008, the loan converted to a term loan with principal and interest payments due monthly at the LIBOR interest rate plus 2%. During 2008, the term loan was refinanced (see above).	-	2,089,844
	<u>\$ 18,669,549</u>	<u>\$ 13,380,183</u>

## The Children's Home Society of Florida and Subsidiaries

### Notes to Consolidated Financial Statements

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#### Note 7. Long-Term Debt and Lines of Credit (Continued)

Maturities of long-term debt as of June 30, 2008 are as follows:

Year Ending June 30,	Amount
2009	\$ 278,677
2010	2,083,234
2011	278,686
2012	293,937
2013	303,843
Thereafter	15,431,172
	<u>\$ 18,669,549</u>

Effective May 2002 and April 2008, CHS entered into two interest rate swap agreements with a notional amount that decreases every six months (\$8,990,000 and \$7,595,000, respectively, at June 30, 2008). Under the terms of the agreements, CHS owes interest calculated at a fixed interest rate of 4.39% and 3.20%, respectively, and receives interest calculated at a variable rate based on the one-month LIBOR interest rate (2.46% at June 30, 2008). The swap agreements terminate in May 2032 and May 2038, respectively. For the years ended June 30, 2008 and 2007, the interest rate swaps had a total negative fair value of \$1,107,100 and \$554,500 (see Note 6), respectively, resulting in a (loss)/gain of \$(552,600) and \$2,900, respectively, which is reflected in the accompanying consolidated statements of activities.

At June 30, 2008, CHS had two revolving lines of credit with the same financial institution. Under the first line of credit, CHS can borrow up to \$4,000,000. Interest is based on the one-month LIBOR interest rate plus 0.75% (3.21% at June 30, 2008). On the second line of credit, CHS can borrow up to \$4,500,000. Interest is based on the one-month LIBOR interest rate plus 1.25% (3.71% at June 30, 2008). Both lines of credit had a zero balance as of June 30, 2008 and 2007. The lines are collateralized by certain investments referred to in Note 4, which have a fair market value of approximately \$5,247,500 at June 30, 2008. Both lines of credit mature on July 19, 2009.

#### Note 8. Letter of Credit

CHS entered into a letter of credit agreement for \$17,022,734 to support the \$16,680,000 bonds payable (see Note 7). The letter of credit, if drawn, bears interest at 15% per annum. As of June 30, 2008, no amount has been drawn on the letter of credit. The letter of credit will automatically renew annually unless CHS is notified 90 days prior to expiration, which the earliest date would be March 31, 2011 or not extended beyond May 1, 2038.

CHS entered into an irrevocable standby letter of credit agreement for \$3,500,000 to facilitate the funding of the retirement plan (see Note 10). The letter of credit will expire on June 30, 2009. As of June 30, 2008, no amount has been drawn on the letter of credit.

The Children's Home Society of Florida and Subsidiaries

Notes to Consolidated Financial Statements

**Note 9. Commitments**

Leases: CHS leases various equipment under capital leases expiring at various dates through December 2012. The leased assets are included in the consolidated statements of financial position as part of property and equipment at a cost of \$998,398 and \$673,464 with accumulated amortization of \$430,678 and \$185,674 as of June 30, 2008 and 2007, respectively. Amortization of these assets held under capital leases is included with depreciation expense and was \$245,004 and \$102,185 for the years ended June 30, 2008 and 2007, respectively.

Certain premises used by operating divisions are occupied under operating leases, ranging up to seven years. Rent expense under all leases was approximately \$3,640,400 and \$3,595,100 for the years ended June 30, 2008 and 2007, respectively.

Future minimum lease payments under capital and operating leases together with the present value of the net minimum lease payments as of June 30, 2008 are as follows:

Year Ending June 30,	Capital Leases	Operating Leases
2009	\$ 296,970	\$ 2,993,910
2010	282,505	2,421,992
2011	101,069	892,883
2012	26,857	333,180
2013	-	157,224
Thereafter	-	303,648
<b>Total minimum lease payments</b>	<b>707,401</b>	<b>\$ 7,102,837</b>
Less amounts representing interest, with annual interest rates ranging from 5.7% to 18.1%	(77,457)	
<b>Present value of minimum capital lease payments</b>	<b>\$ 629,944</b>	

**Note 10. Retirement Plan**

Certain employees of CHS participate in a noncontributory Annuity Benefit Retirement Plan (the Plan) administered by CHS. The Plan provides for defined benefits and covers substantially all employees with more than one year of service and a minimum age of twenty-one years. Benefits are based on years of service and the employee's final average compensation as defined under the Plan. CHS' funding policy is to contribute annually amounts based on the actuarial status of the Plan, but not less than that necessary to meet minimum regulatory funding standards. Plan assets consist of investments in a variety of fixed income and equity securities. AON Consulting, Inc. serves as the Plan's actuary.

The Children's Home Society of Florida and Subsidiaries

Notes to Consolidated Financial Statements

**Note 10. Retirement Plan (Continued)**

The following tables provide a reconciliation of the changes in the Plan's benefit obligations and fair value of assets over the two-year period ended June 30, 2008, and a statement of the funded status as of June 30, 2008 and 2007:

Reconciliation of benefit obligation:

	<u>2008</u>	<u>2007</u>
Accumulated benefit obligation at end of year	\$ 27,378,673	\$ 26,008,828
Projected benefit obligation at beginning of year	\$ 26,008,828	\$ 24,974,213
Service cost	541,216	2,190,262
Interest cost	1,696,222	1,602,768
Actuarial loss	812,136	4,959,313
Benefit payments	(1,679,729)	(1,522,758)
Curtailment gain	-	(6,194,970)
<b>Projected benefit obligation at end of year</b>	<b>\$ 27,378,673</b>	<b>\$ 26,008,828</b>

On June 22, 2007, the Board of Directors approved a motion to freeze employee accrual of benefits under the Plan effective September 30, 2007, at which time, employees shall not accrue any further benefits after such date. Accordingly, a curtailment gain of approximately \$6,195,000 has been recorded in the projected benefit obligation for the year-end June 30, 2007.

	<u>2008</u>	<u>2007</u>
Reconciliation of fair value of plan assets:		
Fair value of plan assets at beginning of year	\$ 21,233,614	\$ 18,322,657
Actual return on plan assets	(2,444,504)	2,457,507
Employer contributions	2,120,000	1,976,208
Benefit payments	(1,679,729)	(1,522,758)
<b>Fair value of plan assets at end of year</b>	<b>\$ 19,229,381</b>	<b>\$ 21,233,614</b>
<b>Funded status at end of years</b>	<b>\$ (8,149,292)</b>	<b>\$ (4,775,214)</b>

Amounts recognized in the consolidated statements of financial position consisted of the following as of June 30, 2008 and 2007:

	<u>2008</u>	<u>2007</u>
Intangible asset	\$ 42,818	\$ 52,889
Pension liability	(8,149,292)	(4,775,214)
<b>Net liability</b>	<b>\$ (8,106,474)</b>	<b>\$ (4,722,325)</b>

The Children's Home Society of Florida and Subsidiaries

Notes to Consolidated Financial Statements

Note 10. Retirement Plan (Continued)

CHS' pension plan weighted-average asset allocations at June 30, 2008 and 2007, by asset category are as follows:

	Target	Percentage of Plan	
	Allocation	Assets at June 30,	
	2009	2008	2007
Equity securities	55%	60%	60%
Debt securities	45%	40%	40%
	100%	100%	100%

Expected return on plan assets: The expected rate of return on Plan assets is 8.0%. CHS expects 8.0% to fall within the 50 to 60 percentile rate of returns on investment portfolios with asset diversification similar to that of the pension plan's largest asset allocation.

Investment policy and strategy: The primary investment objectives of the Plan investment pool are to preserve the purchasing power of assets and earn a reasonable real rate of return over the long-term while minimizing the short-term volatility of results.

The components of net periodic benefit cost for the Plan's fiscal years 2008 and 2007 are as follows:

	2008	2007
Service cost	\$ 541,216	\$ 2,190,262
Interest cost	1,696,222	1,602,768
Expected return on plan assets	(1,748,213)	(1,508,337)
Amortization of net loss	116,465	450,562
Amortization of prior service cost	10,079	10,079
<b>Net periodic benefit cost</b>	<b>\$ 615,769</b>	<b>\$ 2,745,334</b>

The net periodic benefit cost has been allocated over program services expense in the accompanying consolidated statements of activities.

Prior service costs are amortized on a straight-line basis over the average remaining service period of active participants. Gains and losses in excess of 10% of the greater of the benefit obligation and the market-related value of assets are amortized over the average remaining service period of active participants.

Expected contributions for fiscal year ending June 30, 2009 are \$2,851,661.

The Children's Home Society of Florida and Subsidiaries

Notes to Consolidated Financial Statements

**Note 10. Retirement Plan (Continued)**

Estimated future benefit payments reflecting expected future service are as follows:

Year Ending June 30,	Amount
2009	\$ 1,918,777
2010	2,880,150
2011	2,783,303
2012	2,934,995
2013	3,707,556
2014 - 2018	19,488,856

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

	2008	2007
Weighted-average assumptions as of June 30:		
Discount rate	6.30%	6.50%
Expected return on plan assets	8.00%	8.00%
Rate of compensation increase	4.25%	4.25%
Alternative amortization methods used to amortize:		
Prior service cost	Straight-line	Straight-line
Unrecognized net (gain) or loss	Straight-line	Straight-line
Measurement date used	June 30, 2008	June 30, 2007

Additionally, CHS has a 403b thrift plan for eligible employees. Employees may make voluntary contributions up to the federal limits. CHS makes matching contributions equal to 100% of employee contributions up to 3% of included compensation. In addition, CHS makes an employer contribution to employees' accounts at 1% after 3 years of service, 2% after 5 years of service, 3% after 7 years of service and 4% after 9 years of service. Employer contributions vest at 100% after 3 years of service. As a result of the pension plan freeze (above), CHS increased contributions to the 403(b) plan in the current year. Employer contributions were approximately \$1,142,700 and \$570,500, respectively, for the years ended June 30, 2008 and 2007.

## The Children's Home Society of Florida and Subsidiaries

### Notes to Consolidated Financial Statements

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#### Note 10. Retirement Plan (Continued)

CHS also has a 457b thrift plan for eligible employees. Eligible employees may make voluntary contributions from accumulated vacation pay in excess of 240 hours before deferral, but limited each plan year to deferral contributions equal to no more than 80 hours of accumulated vacation pay. CHS makes non-elective contributions annually to the plan. Employer contributions vest at 25% immediately upon contribution, 50% for the 1st year of service, 75% for the 2nd year of service, and 100% for the 3rd year of service. Employer contributions were approximately \$114,000 and \$108,800, respectively, for the years ended June 30, 2008 and 2007.

In October 2007, CHS adopted a 457f deferred compensation plan for eligible employees. Contributions to the plan may be made by employee deferrals, employer match, and/or discretionary employer contributions. The employer match and discretionary contribution vest immediately upon contribution. There were no employer contributions during the year ended June 30, 2008.

#### Note 11. Acquisition

In October 2007, CHS purchased for cash, the Huggie Bear's Childcare and Learning Center, Inc. for \$3,100,000. The Huggie Bear's Childcare and Learning Center, Inc. consisted of three childcare facilities located in Naples, Florida. The results of the operations of the three childcare facilities have been included in CHS' consolidated statements of activities from the date of acquisition. The acquisition was accounted for under the purchase method of accounting and accordingly, the purchase price has been allocated to reflect the fair value of assets acquired at the date of acquisition. The acquisition resulted in goodwill of \$898,813. The estimated fair values of the assets acquired and resulting goodwill as the date of the purchase are as follows:

Acquisition price	\$ 3,100,000
Less fair value of assets acquired:	
Land and buildings	2,175,000
Furniture and equipment	26,187
<b>Goodwill</b>	<u><u>\$ 898,813</u></u>

#### Note 12. Related Party Transactions

CHS is related to The Children's Home Society of Florida Foundation, Inc. (Foundation) through common members of both CHS and the Foundation's Boards. However, CHS and the Foundation have separate Boards and CHS does not have majority voting control over the Foundation Board. Accordingly, the financial statements of CHS are not consolidated with the Foundation.

During the years ended June 30, 2008 and 2007, the Foundation contributed \$428,086 and \$398,258, respectively, to CHS.

#### Note 13. Litigation

CHS is engaged in various legal proceedings incidental to its normal business activities. Such proceedings primarily consist of alleged discriminatory labor practices and professional services. In the opinion of management, based on the advise of legal counsel, the amount of ultimate liability with respect to these actions will not materially affect the financial position of CHS.

# McGladrey & Pullen

Certified Public Accountants

## **Independent Auditor's Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance With *Government Auditing Standards***

To the Audit Committee  
The Children's Home Society of Florida  
Winter Park, Florida

We have audited the consolidated financial statements of The Children's Home Society of Florida as of and for the year ended June 30, 2008, and have issued our report thereon dated October 30, 2008. 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.

### **Internal Control Over Financial Reporting**

In planning and performing our audit, we considered The Children's Home Society of Florida's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of The Children's Home Society of Florida's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of The Children's Home Society of Florida's internal control over financial reporting.

A control deficiency 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 misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential, will not be prevented or detected by the entity's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

**Compliance and Other Matters**

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

This report is intended solely for the information and use of the Audit Committee, management, federal and state awarding agencies, and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

*McGladrey & Pullen, LLP*

Orlando, Florida  
October 30, 2008