

# McGladrey & Pullen

Certified Public Accountants

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

Consolidated Financial Report

06.30.2007

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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 statement of financial position of The Children's Home Society of Florida and Subsidiaries (CHS) as of June 30, 2007, and the related consolidated statements of activities, functional expenses, and cash flows for the year 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 audit. The consolidated financial statements of The Children's Home Society of Florida and Subsidiaries for the year ended June 30, 2006 were audited by other auditor's whose report, dated January 17, 2007, expressed an unqualified opinion on those statements.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free 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 audit provides a reasonable basis for our opinion.

In our opinion, the 2007 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, 2007, and the changes in their net assets and their cash flows for the year 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 December 21, 2007 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  
December 21, 2007

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

**Consolidated Statements of Financial Position**

**June 30, 2007 and 2006**

	2007	2006
<b>Assets</b>		
Cash and cash equivalents	\$ 12,924,084	\$ 6,443,039
Accounts receivable, net	13,530,724	21,767,951
Prepaid expenses and other assets	1,410,963	1,848,184
Investments	5,373,535	4,584,609
Restricted cash	352,584	111,549
Property and equipment, net	35,414,128	33,139,685
Deferred financing costs, net	586,628	613,100
<b>Total assets</b>	<b>\$ 69,592,646</b>	<b>\$ 68,508,117</b>
<b>Liabilities and Net Assets</b>		
Liabilities		
Accounts payable	\$ 3,147,868	\$ 2,853,141
Accrued expenses	14,154,400	11,444,974
Held in custody for account of others	757,951	862,676
Deferred revenue and other liabilities	1,187,539	3,391,927
Capital lease obligations	498,865	363,648
Long-term debt	13,380,183	11,841,092
<b>Total liabilities</b>	<b>33,126,806</b>	<b>30,757,458</b>
Net assets		
Unrestricted	35,838,294	37,142,916
Temporarily restricted	627,546	607,743
<b>Total net assets</b>	<b>36,465,840</b>	<b>37,750,659</b>
<b>Total liabilities and net assets</b>	<b>\$ 69,592,646</b>	<b>\$ 68,508,117</b>

See Notes to Consolidated Financial Statements.

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

### Consolidated Statements of Activities Years Ended June 30, 2007 and 2006

	2007	2006
Changes in unrestricted net assets:		
Public support:		
United Way	\$ 2,882,919	\$ 2,985,884
Bequests contributions, and special events	12,519,083	10,998,319
Contribution income from The Children's Home Society of Florida Foundation, Inc.	398,258	351,869
<b>Total public support</b>	<b>15,800,260</b>	<b>14,336,072</b>
Revenue from service contracts	101,550,785	106,412,338
Adoptive and other service fees	1,088,919	1,062,786
Investment income	545,947	389,517
Realized loss on sale of investments	(18,784)	(39,371)
Change in unrealized appreciation of investments	455,606	64,435
Other revenue	1,255,630	1,638,820
<b>Total public support and unrestricted revenues</b>	<b>120,678,363</b>	<b>123,864,597</b>
Net assets released from restrictions by satisfaction of program restrictions	421,379	387,649
<b>Total public support, unrestricted revenues and other support</b>	<b>121,099,742</b>	<b>124,252,246</b>
Expenses:		
Program services	98,901,954	103,766,464
Supporting services	20,766,693	18,864,870
<b>Total expenses</b>	<b>119,668,647</b>	<b>122,631,334</b>
<b>Increase in unrestricted net assets</b>	<b>1,431,095</b>	<b>1,620,912</b>
Changes in temporarily restricted net assets:		
Bequests and contributions	441,182	233,614
Net assets released from restrictions	(421,379)	(387,649)
<b>Increase (decrease) in temporarily restricted net assets</b>	<b>19,803</b>	<b>(154,035)</b>
Other changes:		
Unrealized gain on interest rate swap	2,900	541,404
Pension excess	-	438,017
<b>Increase in other changes</b>	<b>2,900</b>	<b>979,421</b>
<b>Increase in net assets before effect of adoption of</b>		
<b>FASB Statement No. 158 (Note 1 and 10)</b>	<b>1,453,798</b>	<b>2,446,298</b>
Effect of adoption of recognition provisions of FASB Statement No. 158 (Notes 1 and 10)	(2,738,617)	-
<b>(Decrease) increase in net assets</b>	<b>(1,284,819)</b>	<b>2,446,298</b>
Net assets:		
Beginning	37,750,659	35,304,361
Ending	<b>\$ 36,465,840</b>	<b>\$ 37,750,659</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, 2007

	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	\$ 1,422,923	\$ 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
Total salaries and related expenses	1,728,781	376,347	3,034,112	4,682,581	138,106	4,356,482	996,968
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	251	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, bad debt and other	266,797	6,800	132,202	212,012	37,860	216,490	13,422
Total before depreciation and amortization	439,556	247,660	1,301,676	1,658,863	112,073	2,122,609	962,740
Depreciation and amortization	43,077	6,453	32,899	41,876	940	34,567	5,902
Total expenses	\$ 2,211,414	\$ 630,460	\$ 4,368,687	\$ 6,383,320	\$ 251,119	\$ 6,513,658	\$ 1,965,610

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						
	Case Management/ Development Services	Case Management, Mental Health	Home-Based Family Centered Casework	Homemaker	Intensive Family Preservation	Emergency Shelter/ Runaway	
Salaries	\$ 443,985	\$ 7,983,670	\$ 794,193	\$ 642,587	\$ 3,311,412	\$ 3,782,129	
Employee benefits	60,791	962,322	96,079	114,444	421,357	406,393	
Payroll taxes and other	44,344	753,652	81,012	62,663	295,575	361,832	
<b>Total salaries and related expenses</b>	<b>549,120</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	936,142	69,979	2,858	21,961	114,380	
Supplies	4,104	79,741	10,122	9,220	37,335	34,749	
Telephone	8,029	163,724	26,172	29,296	122,161	81,577	
Postage and shipping	1,172	28,150	1,327	1,951	7,201	9,564	
Occupancy	92,620	1,128,998	96,489	113,845	328,338	536,883	
Rental and maintenance of equipment	11,616	139,045	16,524	27,143	95,501	72,874	
Printing and publications	2,188	13,711	1,903	1,519	15,231	28,031	
Travel	31,871	616,719	52,225	59,230	294,648	176,594	
Conferences, conventions and meetings	1,753	42,108	5,417	3,302	33,040	46,141	
Specific assistance to individuals	32,959	510,899	44,839	3,537	232,359	459,569	
Membership dues	15	8,129	5,163	323	355	12,442	
Interest, bad debt and other	33,549	305,210	49,952	15,854	200,171	286,413	
<b>Total before depreciation and amortization</b>	<b>231,321</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	40,328	15,409	7,485	23,362	155,104	
<b>Total expenses</b>	<b>\$ 788,265</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				
	Foster Care Services	Family Visitation Center	Group Care	Community Organization	Total Program Services	Management and General	Fund Raising	Supporting Services	Total Functional Expenses
Salaries	\$ 4,187,683	\$ 504,208	\$ 6,599,376	\$ 877,716	\$ 57,151,477	\$ 8,379,948	\$ 1,490,127	\$ 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	7,594,303
Payroll taxes and other	391,456	54,198	617,099	81,118	5,333,277	747,137	133,951	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>80,830,220</b>
Professional fees	260,596	25,282	159,963	98,649	3,184,296	450,223	204,007	654,230	3,838,526
Supplies	45,350	8,203	44,536	33,293	595,907	133,893	33,949	167,842	763,749
Telephone	128,632	26,864	182,121	22,351	1,638,835	319,090	56,271	375,361	2,014,196
Postage and shipping	13,092	1,219	18,773	21,685	211,208	86,292	57,621	143,913	355,121
Occupancy	298,043	87,143	995,207	77,794	6,211,821	146,501	168,169	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	1,235,617
Printing and publications	27,449	862	8,022	123,838	421,423	67,750	84,026	151,776	573,199
Travel	298,697	57,441	405,187	25,648	4,543,260	581,866	88,997	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	335,182
Specific assistance to individuals	2,015,422	2,254	939,150	2,909	6,732,441	270	9,550	9,820	6,742,261
Membership dues	744	510	1,051	1,455	39,242	54,788	4,474	59,262	98,504
Interest, bad debt and other	252,358	98,064	524,335	31,565	3,412,253	3,315,596	2,577,632	5,893,228	9,305,481
<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>5,424,983</b>	<b>3,389,021</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	1,835,977
<b>Total expenses</b>	<b>\$ 8,599,999</b>	<b>\$ 986,502</b>	<b>\$ 11,836,304</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>\$ 119,668,647</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, 2006

	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	\$ 1,672,554	\$ 197,358	\$ 2,796,080	\$ 4,000,581	\$ 103,653	\$ 3,138,717	\$ 778,431
Employee benefits	168,987	27,861	339,809	505,281	20,319	437,233	114,300
Payroll taxes and other	154,820	18,175	269,031	360,323	9,343	311,879	71,160
<b>Total salaries and related expenses</b>	<b>1,996,361</b>	<b>243,394</b>	<b>3,404,920</b>	<b>4,866,185</b>	<b>133,315</b>	<b>3,887,829</b>	<b>963,891</b>
Professional fees	213,129	2,644	74,197	108,650	323	424,446	50,786
Supplies	42,482	3,391	79,643	53,489	1,038	36,416	14,932
Telephone	40,879	13,284	84,383	119,016	2,824	155,581	11,602
Postage and shipping	4,890	2,149	10,062	19,623	327	15,647	4,539
Occupancy	57,017	58,017	340,654	359,075	10,538	324,217	99,571
Rental and maintenance of equipment	11,691	10,658	79,289	74,558	4,469	87,696	7,167
Printing and publications	13,521	793	117,473	50,555	89	12,827	6,169
Travel	229,238	33,727	167,892	311,007	4,009	269,012	35,245
Conferences, conventions and meetings	(201,343)	1,949	27,634	21,145	697	22,241	5,328
Specific assistance to individuals	6,091	40,588	320,248	192,257	6,383	55,147	662,709
Membership dues	212	15	1,713	877	66	1,344	288
Interest, bad debt and other	1,021,503	9,980	181,299	270,627	41,226	375,121	53,576
<b>Total before depreciation and amortization</b>	<b>1,439,310</b>	<b>177,195</b>	<b>1,484,487</b>	<b>1,580,879</b>	<b>71,989</b>	<b>1,779,695</b>	<b>951,912</b>
Depreciation and amortization	12,311	11,666	35,013	46,396	576	41,255	22,881
<b>Total expenses</b>	<b>\$ 3,447,982</b>	<b>\$ 432,255</b>	<b>\$ 4,924,420</b>	<b>\$ 6,493,460</b>	<b>\$ 205,880</b>	<b>\$ 5,708,779</b>	<b>\$ 1,938,684</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, 2006

	Program Services						
	Case Management/ Development Services	Case Management, Mental Health	Family Centered Casework	Homemaker	Intensive Family Preservation	Emergency Shelter/ Runaway	
Salaries	\$ 415,463	\$ 8,984,635	\$ 829,016	\$ 370,138	\$ 2,956,179	\$ 3,661,822	
Employee benefits	46,211	987,189	97,492	38,040	340,337	377,585	
Payroll taxes and other	46,388	817,383	85,554	39,755	266,714	359,040	
<b>Total salaries and related expenses</b>	<b>508,062</b>	<b>10,789,207</b>	<b>1,012,062</b>	<b>447,933</b>	<b>3,563,230</b>	<b>4,398,447</b>	
Professional fees	2,065	1,417,901	87,776	2,591	16,498	79,627	
Supplies	5,535	120,387	8,169	4,681	29,521	52,016	
Telephone	9,595	176,658	28,312	12,356	98,657	110,298	
Postage and shipping	1,369	26,264	1,701	705	7,832	10,812	
Occupancy	101,107	904,674	93,468	38,883	183,655	516,358	
Rental and maintenance of equipment	11,541	188,645	44,105	10,147	64,027	99,838	
Printing and publications	1,342	32,802	3,186	684	6,808	12,543	
Travel	37,654	713,523	45,732	22,697	247,918	148,471	
Conferences, conventions and meetings	2,942	54,857	8,918	1,704	20,017	46,802	
Specific assistance to individuals	27,875	569,877	75,777	1,253	208,570	490,853	
Membership dues	2	2,604	10,812	219	668	2,068	
Interest, bad debt and other	22,720	538,784	21,204	50,241	133,306	497,892	
<b>Total before depreciation and amortization</b>	<b>223,747</b>	<b>4,746,976</b>	<b>429,160</b>	<b>146,161</b>	<b>1,017,477</b>	<b>2,067,578</b>	
Depreciation and amortization	10,318	104,118	11,774	9,787	19,961	152,206	
<b>Total expenses</b>	<b>\$ 742,127</b>	<b>\$ 15,640,301</b>	<b>\$ 1,452,996</b>	<b>\$ 603,881</b>	<b>\$ 4,600,668</b>	<b>\$ 6,618,231</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, 2006

	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	
Salaries	\$ 4,503,676	\$ 521,041	\$ 6,348,936	\$ 821,715	\$ 59,039,985	\$ 9,207,871	\$ 1,456,640	\$ 10,664,511	\$ 69,704,496
Employee benefits	508,431	60,735	697,176	93,841	6,827,975	1,161,441	148,823	1,310,264	8,138,239
Payroll taxes and other	421,939	49,570	616,051	76,742	5,546,754	849,426	135,609	985,035	6,531,789
<b>Total salaries and related expenses</b>	<b>5,434,046</b>	<b>631,346</b>	<b>7,662,163</b>	<b>992,298</b>	<b>71,414,714</b>	<b>11,218,738</b>	<b>1,741,072</b>	<b>12,959,810</b>	<b>84,374,524</b>
Professional fees	98,015	33,713	122,020	135,874	3,055,539	657,162	88,841	746,003	3,801,542
Supplies	59,016	9,442	53,438	45,818	773,666	201,461	26,428	227,889	1,001,555
Telephone	135,666	21,969	170,527	67,119	1,805,880	396,792	32,806	429,598	2,235,478
Postage and shipping	13,670	1,729	17,356	38,206	235,770	128,191	25,287	153,478	389,248
Occupancy	297,519	119,756	877,040	122,195	5,646,059	487,977	76,576	564,553	6,210,612
Rental and maintenance of equipment	87,787	15,809	183,110	34,027	1,243,281	268,944	21,137	290,081	1,533,362
Printing and publications	39,765	(4,885)	8,594	162,077	499,828	77,526	66,577	144,103	643,931
Travel	316,709	52,079	410,334	58,797	4,613,989	688,903	64,144	753,047	5,367,036
Conferences, conventions and meetings	27,774	3,646	42,574	16,000	192,507	189,748	15,212	184,960	377,467
Specific assistance to individuals	2,642,478	5,553	890,160	17,260	7,813,082	(7)	14,900	14,893	7,827,975
Membership dues	2,417	922	1,467	4,686	33,369	57,906	5,128	63,034	96,403
Interest, bad debt and other	264,143	125,217	572,232	321,867	5,351,531	8,614	1,650,961	1,659,575	7,011,106
<b>Total before depreciation and amortization</b>	<b>3,984,959</b>	<b>384,950</b>	<b>3,348,852</b>	<b>1,023,926</b>	<b>31,264,501</b>	<b>3,143,217</b>	<b>2,087,997</b>	<b>5,231,214</b>	<b>36,495,715</b>
Depreciation and amortization	67,319	26,049	260,742	34,169	1,087,249	643,509	30,337	673,846	1,761,095
<b>Total expenses</b>	<b>\$ 9,486,324</b>	<b>\$ 1,042,345</b>	<b>\$ 11,271,757</b>	<b>\$ 2,050,393</b>	<b>\$ 103,766,464</b>	<b>\$ 15,005,464</b>	<b>\$ 3,859,406</b>	<b>\$ 18,864,870</b>	<b>\$ 122,631,334</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, 2007 and 2006**

	2007	2006
Cash Flows From Operating Activities		
(Decrease) increase in net assets	\$ (1,284,819)	\$ 2,446,298
Adjustments to reconcile change in net assets to net cash provided by operating activities		
Depreciation and amortization	1,835,977	1,761,095
Change in unrealized appreciation of investments	(455,606)	(64,435)
Change in unrealized gain on interest rate swap	(2,900)	(541,404)
Provision for pension liability (excess)	2,738,617	(438,017)
Loss on the sale of investments	18,784	39,371
Contribution of property and equipment	(31,000)	(50,456)
Gain on sale of property and equipment	(8,653)	(2,017,003)
Provision for doubtful accounts	302,868	1,250,414
Changes in operating assets and liabilities:		
Accounts receivable	7,934,359	1,946,427
Prepaid expenses and other assets	437,221	(559,046)
Accounts payable	(193,475)	12,310
Accrued expense	(26,291)	1,088,963
Deferred revenue and other liabilities	(2,204,388)	453,764
<b>Net cash provided by operating activities</b>	<b>9,060,694</b>	<b>5,328,281</b>
Cash Flows From Investing Activities		
(Increase) decrease in restricted cash	(241,035)	195,201
Purchases of property and equipment	(3,539,469)	(4,007,029)
Proceeds from sale of property and equipment	115,097	2,736,130
Proceeds from sale of investments	504,532	830,621
Purchases of investments	(856,636)	(1,312,761)
<b>Net cash used in investing activities</b>	<b>(4,017,511)</b>	<b>(1,557,838)</b>
Cash Flows From Financing Activities		
Payments for deferred financing costs	-	(142,625)
Principal payments on capital lease obligations	(101,229)	(56,105)
Proceeds from long-term debt	1,814,214	574,226
Principal payments on long-term debt	(275,123)	(286,354)
<b>Net cash provided by financing activities</b>	<b>1,437,862</b>	<b>89,142</b>
<b>Net increase in cash and cash equivalents</b>	<b>6,481,045</b>	<b>3,859,585</b>
Cash and cash equivalents:		
Beginning	6,443,039	2,583,454
Ending	<b>\$ 12,924,084</b>	<b>\$ 6,443,039</b>
Supplemental Disclosures of Cash Flow Information		
Cash paid during the year for interest, net of \$82,253 and \$0 capitalized interest for the years ended June 30, 2007 and 2006, respectively	<b>\$ 634,696</b>	<b>\$ 564,706</b>
Supplemental Disclosure of Non-Cash Investing and Financing Activities		
Assets acquired under capital lease obligations	<b>\$ 236,446</b>	<b>\$ 187,169</b>
Property and equipment included in accounts payable	<b>\$ 488,202</b>	<b>\$ -</b>

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 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.

A summary of CHS' significant accounting policies follows:

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), and Centennial Holdings Southwest, LLC (Southwest), 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. All intercompany balances have been eliminated in consolidation.

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.

Restricted cash: Restricted cash represents cash held by CHS that is restricted to a specific program and cash held as collateral for an unrelated community based care agency's line of credit.

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

### Notes to Consolidated Financial Statements

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

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, 2007 and 2006.

Deferred financing costs: As of June 30, 2007 and 2006, deferred financing costs were \$692,771 and \$738,231 and accumulated amortization expense was \$106,143 and \$125,131, respectively. Amortization expense was \$26,472 and \$72,288 for the years ended June 30, 2007 and 2006, respectively. Deferred financing costs principally relate to costs incurred in relation to acquiring loans and are being amortized over the term of the related financing agreement (see Note 7) using a method that approximates the effective interest method.

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 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.

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 \$40,300 and \$79,400 for the years ended June 30, 2007 and 2006, 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 an interest rate swap, obtained in conjunction with the bonds payable (see Note 7), as a derivative.

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 Income Tax Code. 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 and Significant Accounting Policies (Continued)

Fair value of financial instruments: At June 30, 2007 and 2006, CHS' financial instruments consist of cash and cash equivalents, accounts receivable, investments, restricted cash, accounts payable and borrowings. The fair values of CHS' financial instruments excluding 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, 2007 and 2006.

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, 2007 and 2006, are available for the following purposes:

	<u>2007</u>	<u>2006</u>
Henry Training Fund	\$ 307,634	\$ 307,734
Children's Emergency Medical Services	234,860	234,936
Joshua House	61,172	61,192
Amaturo Family Foundation Fund	20,000	-
President's Scholarship Fund	3,880	3,881
	<u>\$ 627,546</u>	<u>\$ 607,743</u>

As of June 30, 2007 and 2006, net assets of \$421,379 and \$387,649 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**

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**Note 3. Accounts Receivable**

Accounts receivable consisted of the following at June 30, 2007 and 2006:

	<b>2007</b>	2006
Community based care	<b>\$ 6,878,981</b>	\$ 12,141,885
Medicaid	<b>3,986,685</b>	4,440,707
Government contracts	<b>2,056,841</b>	3,719,965
Pledges	<b>1,507,695</b>	873,634
Other	<b>811,367</b>	1,996,033
Adoptive fees	<b>69,881</b>	90,710
United Way	<b>23,446</b>	16,321
	<b>15,334,896</b>	23,279,255
Less allowance for doubtful accounts	<b>(1,722,838)</b>	(1,493,791)
Less discount for time-value of money	<b>(81,334)</b>	(17,513)
	<b>\$ 13,530,724</b>	\$ 21,767,951

Unconditional promises to give at June 30, 2007 are summarized as follows:

Amounts due:	
Within one year	\$ 667,376
One to five years	762,717
More than five years	77,602
	<u>1,507,695</u>
Less discount for time - value of money	(81,334)
	<u>\$ 1,426,361</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, 2007 and 2006:

Description	June 30, 2007		
	Cost	Net	
		Unrealized Gain	Fair Value
Stocks, principally common	\$ 2,796,970	\$ 410,990	\$ 3,207,960
Corporate bonds	188,664	6,663	195,327
U.S. Government obligations	1,932,295	37,953	1,970,248
	<u>\$ 4,917,929</u>	<u>\$ 455,606</u>	<u>\$ 5,373,535</u>

  

Description	June 30, 2006		
	Cost	Net	
		Unrealized Gain (Loss)	Fair Value
Stocks, principally common	\$ 2,401,547	\$ 153,950	\$ 2,555,497
Corporate bonds	270,898	(5,032)	265,866
U.S. Government obligations	1,847,729	(84,483)	1,763,246
	<u>\$ 4,520,174</u>	<u>\$ 64,435</u>	<u>\$ 4,584,609</u>

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

### Notes to Consolidated Financial Statements

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#### Note 5. Property and Equipment

Property and equipment consisted of the following at June 30, 2007 and 2006:

	<u>2007</u>	<u>2006</u>
Land	\$ 4,205,525	\$ 4,185,525
Buildings and improvements	29,219,119	28,601,664
Furniture and equipment	16,197,203	14,482,772
Leasehold improvements	1,081,422	1,034,418
Construction in progress	2,050,907	336,118
	<u>52,754,176</u>	<u>48,640,497</u>
Less accumulated depreciation	(17,340,048)	(15,500,812)
	<u>\$ 35,414,128</u>	<u>\$ 33,139,685</u>

Depreciation expense for the years ended June 30, 2007 and 2006, was approximately \$1,809,500 and \$1,583,800, respectively.

#### Note 6. Accrued Expenses

Accrued expenses consisted of the following at June 30, 2007 and 2006:

	<u>2007</u>	<u>2006</u>
Accrued salaries and benefits	\$ 5,265,238	\$ 4,982,420
Pension liability	4,775,214	2,465,327
Accrued vacation	3,050,333	3,245,744
Fair value of interest rate swap	554,500	557,400
Other	509,115	194,083
	<u>\$ 14,154,400</u>	<u>\$ 11,444,974</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 estimate amount due for open claims and claims incurred but not reported, totaling \$1,184,178 and \$992,768 at June 30, 2007 and 2006, 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, 2007 and 2006:

	<u>2007</u>	<u>2006</u>
Bonds payable dated May 1, 2002 with an original principal balance of \$10 million. The bonds bear interest at a fixed rate of 4.39% (see swap agreement disclosure below) and have a maturity date of May 1, 2032. 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) and by existing land and buildings.	\$ 9,180,000	\$ 9,360,000
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.	1,867,976	1,910,934
Mortgage payable with an original balance of \$247,000 dated November 15, 2005, payable to a bank; fixed rate 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.	242,363	245,212
Construction loan providing maximum advances of \$2,139,000 dated January 10, 2006, payable to a bank. During the construction phase, interest only payments are due monthly at the prime rate plus 0.5% (8.75% at June 30, 2007). In January 2008, the loan converts to a term loan with principal and interest payments due monthly at the LIBOR rate plus 2%. The debt is collateralized by property in Indian River County, Florida and matures in January 2018.	2,089,844	324,946
	<u>\$ 13,380,183</u>	<u>\$ 11,841,092</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, 2007 are as follows:

Year Ending June 30,	Amount
2008	\$ 267,405
2009	285,270
2010	2,090,330
2011	289,264
2012	304,480
Thereafter	10,143,434
	<u>\$ 13,380,183</u>

Effective May 2002, CHS entered into an interest rate swap agreement with a notional amount that decreases every six months (\$9,180,000 at June 30, 2007). Under the terms of the agreement, CHS owes interest calculated at a fixed rate of 4.39% and receives interest calculated at a variable rate based on the one-month LIBOR rate. The agreement terminates in May 2032. For the years ended June 30, 2007 and 2006, the interest rate swap had a negative fair value of approximately \$554,500 and \$557,400, respectively, resulting in a gain/(loss) of approximately \$2,900 and \$541,400, respectively, which is reflected in the accompanying consolidated statements of activities.

At June 30, 2007, 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 rate plus 0.75% (6.55% at June 30, 2007). On the second line of credit, CHS can borrow up to \$4,500,000. Interest is based on the one-month LIBOR rate plus 1.25% (7.05% at June 30, 2007). Both lines of credit had a zero balance as of June 30, 2007 and 2006. The lines are collateralized by certain investments referred to in Note 4, which have a fair market value of approximately \$5,181,000 at June 30, 2007. Both lines of credit mature July 19, 2008. See Note 13, Subsequent Event.

On July 1, 2006, Centennial Finance established an unsecured \$2,000,000 line of credit with a bank, which bears interest at the one-month LIBOR rate plus 1.25%. The line of credit was established for funding certain unrelated community based care agencies. Each agency had established guarantees, including CHS, to the bank for the benefit of Centennial Finance in the total amount of \$2,000,000, in the event of default by Centennial Finance. As of June 30, 2007, no amounts had been drawn against the line of credit for the benefit of the community based care agencies. Subsequent to June 30, 2007, the line of credit was canceled on July 1, 2007.

#### Note 8. Letter of Credit

CHS entered into a letter of credit agreement in the amount of \$9,730,925 to support the \$10,000,000 bonds payable (see Note 7). The letter of credit, if drawn upon, bears interest at an assumed maximum rate of interest of 15% per annum. As of June 30, 2007 and 2006, 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 October 19, 2008 or not extended beyond May 15, 2032.

## 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 May 2012. The leased assets are included in the consolidated statements of financial position as part of property and equipment at a cost of \$548,539 and \$312,093 with accumulated amortization of \$123,182 and \$45,935 as of June 30, 2007 and 2006, respectively. Amortization of these assets held under capital leases is included with depreciation expense and was approximately \$77,200 and \$45,900 for the years ended June 30, 2007 and 2006, respectively.

Certain premises used by operating divisions are occupied under operating leases, ranging up to seven years. Rent expense under all leases was approximately \$3,595,100 and \$3,261,600 for the years ended June 30, 2007 and 2006, 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, 2007 are as follows:

Year Ending June 30,	Capital Leases	Operating Leases
2008	\$ 159,561	\$ 2,943,889
2009	165,892	2,269,362
2010	151,457	1,769,691
2011	90,360	840,150
2012	26,857	413,654
Thereafter	-	458,472
Total minimum lease payments	594,127	\$ 8,695,218
Less amounts representing interest, with annual interest rates ranging from 5.7% to 18.1%	95,262	
Present value of minimum capital lease payments	\$ 498,865	

On October 22, 2003, CHS entered into a sublease agreement with an organization for that organization to lease a portion of a building. The lease expired on December 31, 2006 and the Organization is leasing the premises on a month to month basis. CHS received lease receipts of approximately \$144,000 and \$152,600 during the years ended June 30, 2007 and 2006, respectively.

#### Note 10. Retirement Plan

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, 2007, and a statement of the funded status as of June 30, 2007 and 2006:

Reconciliation of benefit obligation:

	<u>2007</u>	<u>2006</u>
Accumulated benefit obligation at end of year	<b>\$ 26,008,828</b>	\$ 21,076,747
Projected benefit obligation at beginning of year	<b>\$ 24,974,213</b>	\$ 25,208,581
Service cost	<b>2,190,262</b>	2,150,913
Interest cost	<b>1,602,768</b>	1,258,824
Actuarial loss (gain)	<b>4,959,313</b>	(1,322,372)
Benefit payments	<b>(1,522,758)</b>	(2,321,733)
Curtailment gain	<b>(6,194,970)</b>	-
<b>Projected benefit obligation at end of year</b>	<b>\$ 26,008,828</b>	\$ 24,974,213

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.

	<u>2007</u>	<u>2006</u>
Reconciliation of fair value of plan assets:		
Fair value of plan assets at beginning of year	<b>\$ 18,322,657</b>	\$ 18,277,453
Actual return on plan assets	<b>2,457,507</b>	908,937
Employer contributions	<b>1,976,208</b>	1,458,000
Benefit payments	<b>(1,522,758)</b>	(2,321,733)
<b>Fair value of plan assets at end of year</b>	<b>\$ 21,233,614</b>	\$ 18,322,657
Funded status at end of years	<b>\$ (4,775,214)</b>	\$ (6,651,556)

Amounts recognized in the consolidated statements of financial position consisted of the following as of June 30, 2007 and 2006:

	<u>2007</u>	<u>2006</u>
Intangible asset	<b>\$ 52,889</b>	\$ 62,968
Minimum liability adjustment	<b>(2,738,617)</b>	(1,423,651)
Net amount recognized	<b>(2,036,597)</b>	(1,041,676)
<b>Net liability</b>	<b>\$ (4,722,325)</b>	\$ (2,402,359)

**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, 2007 and 2006, by asset category are as follows:

	Target Allocation	Percentage of Plan Assets at June 30,	
	2008	2007	2006
Equity securities	55%	60%	59%
Debt securities	45%	40%	41%
	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 2007 and 2006, are as follows:

	2007	2006
Service cost	\$ 2,190,262	\$ 2,150,913
Interest cost	1,602,768	1,258,824
Expected return on plan assets	(1,508,337)	(1,432,456)
Amortization of net loss	450,562	512,316
Amortization of prior service cost	10,079	10,079
<b>Net periodic benefit cost</b>	<b>\$ 2,745,334</b>	<b>\$ 2,499,676</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, 2008 are \$1,700,000.

**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
2008	\$ 1,606,835
2009	2,081,980
2010	1,755,910
2011	1,524,240
2012	1,522,738
2013 - 2017	10,285,281

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

	2007	2006
Weighted-average assumptions as of June 30:		
Discount rate	6.50%	5.25%
Expected return on plan assets	8.00%	8.00%
Rate of compensation increase	4.25%	5.00%
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, 2007	June 30, 2006

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. Employer contributions vest at 100% after 3 years of service. Employer contributions were approximately \$570,500 and \$710,900, respectively, for the years ended June 30, 2007 and 2006.

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 \$108,800 and \$187,000, respectively, for the years ended June 30, 2007 and 2006.

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

### **Notes to Consolidated Financial Statements**

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#### **Note 11. 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, 2007 and 2006, the Foundation contributed \$398,258 and \$351,869, respectively, to CHS.

#### **Note 12. 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.

#### **Note 13. Subsequent Event**

On October 2, 2007, CHS purchased three childcare facilities in Naples Florida for approximately \$3,100,000. CHS borrowed \$3,100,000 against the line of credit (Note 7) to fund this acquisition.