

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

(A Not-For-Profit Corporation)

*Consolidated Financial Statements
as of and for the Years Ended
June 30, 2006 and 2005,
and Independent Auditors' Report*

THE CHILDREN'S HOME SOCIETY OF FLORIDA

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INDEPENDENT AUDITORS' REPORT

To the Audit Committee of
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 (a not-for-profit corporation) and subsidiaries ("CHS") as of June 30, 2006 and 2005, and the related consolidated statements of activities, functional expenses, and cash flows for the years then ended. These financial statements are the responsibility of the management of CHS. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. 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 consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, 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 present fairly, in all material respects, the financial position of The Children's Home Society of Florida and subsidiaries as of June 30, 2006 and 2005, and the changes in its net assets and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

Deloitte & Touche LLP

January 17, 2007

THE CHILDREN'S HOME SOCIETY OF FLORIDA AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION AS OF JUNE 30, 2006 AND 2005

	2006	2005
ASSETS		
CASH AND CASH EQUIVALENTS	\$ 6,443,039	\$ 2,583,454
ACCOUNTS RECEIVABLE—Net	21,767,951	24,964,795
PREPAID EXPENSES AND OTHER ASSETS	1,848,184	1,289,138
INVESTMENTS	4,584,609	4,077,405
RESTRICTED CASH	111,549	306,750
LAND, BUILDINGS, AND EQUIPMENT—Net	33,139,685	30,951,571
DEFERRED FINANCING COSTS—Net	<u>613,100</u>	<u>549,197</u>
TOTAL	<u>\$ 68,508,117</u>	<u>\$ 64,722,310</u>
LIABILITIES AND NET ASSETS		
LIABILITIES:		
Accounts payable	\$ 2,853,141	\$ 2,840,837
Accrued expenses	11,444,974	11,335,432
Held in custody for account of others	862,676	641,211
Deferred revenue and other liabilities	3,391,927	2,938,938
Obligation under capital leases	363,648	108,376
Notes payable	<u>11,841,092</u>	<u>11,553,155</u>
Total liabilities	<u>30,757,458</u>	<u>29,417,949</u>
NET ASSETS:		
Unrestricted net assets	37,142,916	34,542,583
Temporarily restricted net assets	<u>607,743</u>	<u>761,778</u>
Total net assets	<u>37,750,659</u>	<u>35,304,361</u>
TOTAL	<u>\$ 68,508,117</u>	<u>\$ 64,722,310</u>

See notes to consolidated financial statements.

THE CHILDREN'S HOME SOCIETY OF FLORIDA AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF ACTIVITIES FOR THE YEARS ENDED JUNE 30, 2006 AND 2005

	2006	2005
CHANGES IN UNRESTRICTED NET ASSETS:		
Public support:		
United Way	\$ 2,985,885	\$ 2,988,084
Bequests, contributions, and special events	10,998,319	8,920,696
Contribution income from The Children's Home Society of Florida Foundation, Inc.	<u>351,869</u>	<u>61,825</u>
Total public support	14,336,073	11,970,605
Revenue from service contracts	106,412,338	101,428,798
Adoptive and other service fees	1,062,786	891,885
Investment income	389,517	184,887
Realized (loss) gain on sale of investments	(39,371)	52,822
Change in unrealized appreciation (depreciation) of investments	64,435	(72,333)
Other revenue	<u>1,638,820</u>	<u>3,944,617</u>
Total public support and unrestricted revenue	123,864,597	118,401,281
Net assets released from restrictions	<u>387,649</u>	<u>958,401</u>
Total public support, unrestricted revenues, and other support	<u>124,252,246</u>	<u>119,359,682</u>
Expenses:		
Program services	103,766,464	92,813,231
Supporting services	<u>18,864,870</u>	<u>22,758,722</u>
Total expenses	<u>122,631,334</u>	<u>115,571,953</u>
Increase in unrestricted net assets	<u>1,620,912</u>	<u>3,787,729</u>
CHANGES IN TEMPORARILY RESTRICTED NET ASSETS:		
Bequests, contributions, and special events	233,614	142,741
Net assets released from restrictions	<u>(387,649)</u>	<u>(958,401)</u>
Decrease in temporarily restricted net assets	<u>(154,035)</u>	<u>(815,660)</u>
OTHER CHANGES:		
Unrealized gain (loss) on interest rate swap	541,404	(371,691)
Pension excess (liability)	<u>438,017</u>	<u>(1,861,668)</u>
Increase (decrease) in other changes	<u>979,421</u>	<u>(2,233,359)</u>
INCREASE IN NET ASSETS	2,446,298	738,710
NET ASSETS—Beginning of year	<u>35,304,361</u>	<u>34,565,651</u>
NET ASSETS—End of year	<u>\$ 37,750,659</u>	<u>\$ 35,304,361</u>

See notes to consolidated financial statements.

THE CHILDREN'S HOME SOCIETY OF FLORIDA AND SUBSIDIARIES

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	Daycare	Case Management/Development Services	Case Management, Mental Health
SALARIES	\$1,672,554	\$ 197,358	\$2,796,080	\$4,000,581	\$103,653	\$3,138,717	\$ 778,431	\$415,463	\$16,939,990	\$ 8,984,635
EMPLOYEE BENEFITS	168,987	27,861	339,809	505,281	20,319	437,233	114,300	46,211	1,967,148	987,189
PAYROLL TAXES AND OTHER	154,820	18,175	269,031	360,323	9,343	311,879	71,160	46,388	1,572,887	817,383
Total salaries and related expenses	1,996,361	243,395	3,404,920	4,866,184	133,315	3,887,829	963,890	508,062	20,480,025	10,789,207
PROFESSIONAL FEES	213,129	2,644	74,197	108,650	323	424,446	50,786	2,065	185,284	1,417,901
SUPPLIES	42,482	3,391	79,643	53,489	1,038	36,416	14,932	5,535	154,252	120,387
TELEPHONE	40,879	13,284	84,383	119,016	2,824	155,581	11,602	9,595	547,154	176,658
POSTAGE AND SHIPPING	4,890	2,148	10,060	19,625	327	15,647	4,539	1,369	58,889	26,264
OCCUPANCY	57,017	58,017	340,654	359,075	10,538	324,215	99,571	101,107	1,142,315	904,674
RENTAL AND MAINTENANCE OF EQUIPMENT	11,691	10,658	79,289	74,558	4,469	87,696	7,167	11,541	228,717	188,645
PRINTING AND PUBLICATIONS	13,521	793	117,473	50,555	89	12,827	6,169	1,342	35,485	32,802
TRAVEL	229,238	33,727	167,892	311,007	4,009	269,012	35,245	37,654	1,509,945	713,523
CONFERENCES, CONVENTIONS AND MEETINGS	(201,343)	1,949	27,634	21,145	697	22,241	5,328	2,942	89,622	54,857
SPECIFIC ASSISTANCE TO INDIVIDUALS	6,091	40,588	320,248	192,257	6,383	55,147	662,709	27,875	1,600,003	569,877
MEMBERSHIP DUES	212	15	1,713	877	66	1,344	288	2	2,989	2,604
MISCELLANEOUS	1,021,503	9,980	181,299	270,627	41,226	375,121	53,576	22,719	850,593	538,782
Total before depreciation and amortization	1,439,310	177,195	1,484,487	1,580,880	71,989	1,779,695	951,913	223,746	6,405,247	4,746,976
DEPRECIATION AND AMORTIZATION	12,311	11,666	35,013	46,396	576	41,255	22,881	10,318	220,709	104,118
Total expense	\$3,447,982	\$ 432,255	\$4,924,420	\$6,493,460	\$205,880	\$5,708,779	\$1,938,684	\$742,127	\$27,105,981	\$15,640,301

THE CHILDREN'S HOME SOCIETY OF FLORIDA AND SUBSIDIARIES

**STATEMENT OF FUNCTIONAL EXPENSES
YEAR ENDED JUNE 30, 2006**

	Program Services								
	Home-Based Family Centered		Intensive Family Preservation	Emergency Shelter/ Runaway	Foster Care Services	Family Visitation Center	Group Care	Community Organization	Total Program Services
	Casework	Homemaker							
SALARIES	\$ 829,016	\$370,139	\$2,956,179	\$3,661,822	\$ 4,503,678	\$ 521,041	\$ 6,348,936	\$ 821,715	\$ 59,039,986
EMPLOYEE BENEFITS	97,492	38,040	340,337	377,585	508,431	60,735	697,176	93,841	6,827,975
PAYROLL TAXES AND OTHER	85,554	39,755	266,714	359,040	421,938	49,570	616,051	76,742	5,546,754
Total salaries and related expenses	1,012,061	447,933	3,563,230	4,398,447	5,434,047	631,346	7,662,163	992,298	71,414,714
PROFESSIONAL FEES	87,776	2,591	16,498	79,627	98,015	33,713	122,020	135,874	3,055,539
SUPPLIES	8,169	4,681	29,521	52,015	59,016	9,442	53,438	45,818	773,665
TELEPHONE	28,312	12,356	98,657	110,296	135,666	21,969	170,527	67,119	1,805,880
POSTAGE AND SHIPPING	1,700	705	7,832	10,813	13,670	1,729	17,356	38,205	235,770
OCCUPANCY	93,469	38,883	183,655	516,358	297,519	119,756	877,040	122,195	5,646,058
RENTAL AND MAINTENANCE OF EQUIPMENT	44,105	10,147	64,027	99,838	87,787	15,810	183,110	34,027	1,243,281
PRINTING AND PUBLICATIONS	3,186	684	6,808	12,543	39,765	(4,885)	8,594	162,078	499,828
TRAVEL	45,732	22,697	247,918	148,471	316,709	52,080	410,334	58,797	4,613,989
CONFERENCES, CONVENTIONS AND MEETINGS	8,918	1,704	20,017	46,802	27,775	3,646	42,574	16,000	192,507
SPECIFIC ASSISTANCE TO INDIVIDUALS	75,777	1,253	208,570	490,853	2,642,478	5,553	890,160	17,260	7,813,081
MEMBERSHIP DUES	10,811	219	668	2,068	2,417	922	1,467	4,686	33,370
MISCELLANEOUS	21,206	50,241	133,305	497,893	264,143	125,217	572,231	321,867	5,351,531
Total before depreciation and amortization	429,160	146,162	1,017,477	2,067,578	3,984,959	384,950	3,348,852	1,023,926	31,264,500
DEPRECIATION AND AMORTIZATION	11,774	9,787	19,961	152,206	67,319	26,049	260,742	34,169	1,087,249
Total expenses	<u>\$1,452,995</u>	<u>\$603,881</u>	<u>\$4,600,668</u>	<u>\$6,618,231</u>	<u>\$ 9,486,324</u>	<u>\$1,042,345</u>	<u>\$11,271,757</u>	<u>\$2,050,393</u>	<u>\$ 103,766,464</u>

THE CHILDREN'S HOME SOCIETY OF FLORIDA AND SUBSIDIARIES

**STATEMENT OF FUNCTIONAL EXPENSES
YEAR ENDED JUNE 30, 2006**

	<u>Supporting Services</u>			
	<u>Management and General</u>	<u>Fund Raising</u>	<u>Total Supporting Services</u>	
SALARIES	\$ 9,207,871	\$1,456,640	\$10,664,511	\$ 69,704,496
EMPLOYEE BENEFITS	1,161,440	148,823	1,310,264	8,138,239
PAYROLL TAXES AND OTHER	<u>849,426</u>	<u>135,609</u>	<u>985,035</u>	<u>6,531,789</u>
Total salaries and related expenses	11,218,738	1,741,072	12,959,810	84,374,524
PROFESSIONAL FEES	657,162	88,841	746,003	3,801,542
SUPPLIES	201,461	26,428	227,889	1,001,555
TELEPHONE	396,792	32,806	429,598	2,235,478
POSTAGE AND SHIPPING	128,191	25,287	153,478	389,248
OCCUPANCY	487,977	76,576	564,553	6,210,612
RENTAL AND MAINTENANCE OF EQUIPMENT	268,944	21,137	290,081	1,533,362
PRINTING AND PUBLICATIONS	77,526	66,577	144,103	643,931
TRAVEL	688,903	64,144	753,047	5,367,036
CONFERENCES, CONVENTIONS AND MEETINGS	169,748	15,212	184,960	377,467
SPECIFIC ASSISTANCE TO INDIVIDUALS	(7)	14,900	14,893	7,827,975
MEMBERSHIP DUES	57,906	5,128	63,034	96,403
MISCELLANEOUS	<u>8,614</u>	<u>1,650,960</u>	<u>1,659,575</u>	<u>7,011,106</u>
Total before depreciation and amortization	3,143,217	2,087,996	5,231,214	36,495,714
DEPRECIATION AND AMORTIZATION	<u>643,509</u>	<u>30,337</u>	<u>673,846</u>	<u>1,761,095</u>
Total expenses	<u>\$15,005,464</u>	<u>\$3,859,406</u>	<u>\$18,864,870</u>	<u>\$122,631,334</u>

THE CHILDREN'S HOME SOCIETY OF FLORIDA AND SUBSIDIARIES

STATEMENT OF FUNCTIONAL EXPENSES YEAR ENDED JUNE 30, 2005

	Program Services									
	Training	Independent Living for Youth	Family Life Education	Adoption and Inter-Country Adoption	Pregnancy Counseling/ Support	Home Visitor Service	Early Intervention Services	Daycare	Case Management/ Development Services	Case Management, Mental Health
SALARIES	\$1,083,238	\$ 540,325	\$2,286,455	\$3,833,281	\$351,408	\$3,048,268	\$ 732,123	\$438,213	\$14,256,311	\$ 8,176,117
EMPLOYEE BENEFITS	83,952	82,355	279,336	477,113	45,929	498,505	111,732	44,181	1,622,000	926,735
PAYROLL TAXES AND OTHER	99,128	53,099	228,695	392,149	39,220	314,580	71,824	40,350	1,359,653	805,047
Total salaries and related expenses	1,266,317	675,780	2,794,486	4,702,542	436,557	3,861,353	915,679	522,744	17,237,964	9,907,899
PROFESSIONAL FEES	109,263	7,758	67,701	125,168	2,136	392,091	105,064	4,533	260,776	1,114,685
SUPPLIES	18,781	5,991	81,802	39,626	1,657	68,504	13,146	4,314	177,510	108,647
TELEPHONE	18,031	35,250	52,202	67,187	6,648	130,631	10,167	8,761	459,236	147,558
POSTAGE AND SHIPPING	1,073	2,623	5,864	12,012	431	10,467	4,631	646	46,615	27,898
OCCUPANCY	8,623	82,291	261,470	266,521	8,158	240,772	51,535	22,348	810,295	711,370
RENTAL AND MAINTENANCE OF EQUIPMENT	6,760	22,712	78,609	53,096	9,820	90,366	11,723	6,763	230,106	163,358
PRINTING AND PUBLICATIONS	4,201	4,360	54,946	253,137	112	41,589	4,722	251	39,985	42,600
TRAVEL	112,231	54,239	136,978	274,731	8,363	264,073	29,181	32,488	1,263,837	650,173
CONFERENCES, CONVENTIONS AND MEETINGS	18,724	2,210	12,293	15,167	484	13,375	7,260	1,118	50,060	28,561
SPECIFIC ASSISTANCE TO INDIVIDUALS	7,199	99,705	158,904	195,859	30,820	160,451	489,163	26,223	1,735,661	468,440
MEMBERSHIP DUES	33	140	2,360	1,645	492	1,618	56	49	1,780	5,265
MISCELLANEOUS	24,145	17,999	73,455	93,681	21,229	54,573	50,695	14,431	167,963	312,371
Total before depreciation and amortization	1,595,381	1,011,059	3,781,071	6,100,370	526,905	5,329,862	1,693,022	644,668	22,481,788	13,688,822
DEPRECIATION AND AMORTIZATION	2,228	16,407	32,356	47,027	953	39,074	31,559	7,415	148,392	106,910
Total expenses	<u>\$1,597,609</u>	<u>\$1,027,466</u>	<u>\$3,813,427</u>	<u>\$6,147,397</u>	<u>\$527,857</u>	<u>\$5,368,936</u>	<u>\$1,724,581</u>	<u>\$652,083</u>	<u>\$22,630,180</u>	<u>\$13,795,732</u>

THE CHILDREN'S HOME SOCIETY OF FLORIDA AND SUBSIDIARIES

STATEMENT OF FUNCTIONAL EXPENSES YEAR ENDED JUNE 30, 2005

	Program Services								
	Home-Based Family Centered		Intensive Family	Emergency Shelter/ Runaway	Foster Care Services	Family Visitation Center	Group Care	Community Organization	Total Program Services
	Casework	Homemaker	Preservation						
SALARIES	\$ 812,550	\$338,590	\$3,270,499	\$3,810,142	\$4,133,521	\$ 580,825	\$ 5,797,259	\$1,638,542	\$55,127,666
EMPLOYEE BENEFITS	96,447	48,076	430,712	434,076	532,204	78,003	664,685	196,269	6,652,309
PAYROLL TAXES AND OTHER	80,818	39,296	357,721	410,256	430,375	61,232	608,165	161,093	5,552,701
Total salaries and related expenses	989,815	425,962	4,058,931	4,654,474	5,096,101	720,060	7,070,109	1,995,904	67,332,676
PROFESSIONAL FEES	105,920	2,150	17,592	104,889	83,385	50,939	98,457	52,418	2,704,923
SUPPLIES	8,995	4,076	37,110	61,348	45,467	14,594	47,044	47,587	786,200
TELEPHONE	24,149	10,203	124,814	95,135	121,509	28,681	153,315	69,550	1,563,027
POSTAGE AND SHIPPING	1,898	852	9,794	12,520	11,322	2,172	9,787	33,213	193,816
OCCUPANCY	59,616	22,602	231,709	539,484	270,196	80,223	739,347	204,498	4,611,056
RENTAL AND MAINTENANCE OF EQUIPMENT	12,114	6,235	70,918	78,129	68,028	19,342	120,674	27,753	1,076,506
PRINTING AND PUBLICATIONS	4,970	456	5,719	11,637	16,746	1,456	14,337	72,294	573,517
TRAVEL	46,029	24,652	264,739	149,678	242,725	38,864	298,876	125,826	4,017,680
CONFERENCES, CONVENTIONS AND MEETINGS	10,031	234	29,267	34,187	9,404	859	22,870	10,881	266,986
SPECIFIC ASSISTANCE TO INDIVIDUALS	85,350	7,953	247,003	518,041	1,571,687	2,684	808,708	113,487	6,727,338
MEMBERSHIP DUES	58	39	445	7,239	1,247	491	1,540	2,451	26,948
MISCELLANEOUS	26,749	13,229	58,406	136,256	138,422	24,043	530,278	215,902	1,973,825
Total before depreciation and amortization	1,375,692	518,643	5,156,449	6,403,016	7,676,237	984,407	9,915,342	2,971,764	91,854,499
DEPRECIATION AND AMORTIZATION	9,987	13,074	35,837	139,922	83,674	16,938	164,333	62,648	958,733
Total expenses	<u>\$1,385,679</u>	<u>\$531,717</u>	<u>\$5,192,285</u>	<u>\$6,542,937</u>	<u>\$7,759,911</u>	<u>\$1,001,345</u>	<u>\$10,079,676</u>	<u>\$3,034,412</u>	<u>\$92,813,231</u>

THE CHILDREN'S HOME SOCIETY OF FLORIDA AND SUBSIDIARIES

STATEMENT OF FUNCTIONAL EXPENSES YEAR ENDED JUNE 30, 2005

	<u>Supporting Services</u>			Total Functional Expenses
	Management and General	Fund Raising	Total Supporting Services	
SALARIES	\$ 8,204,260	\$1,253,028	\$ 9,457,288	\$ 64,584,954
EMPLOYEE BENEFITS	2,777,972	139,107	2,917,079	9,569,387
PAYROLL TAXES AND OTHER	<u>869,804</u>	<u>128,391</u>	<u>998,194</u>	<u>6,550,896</u>
Total salaries and related expenses	11,852,035	1,520,525	13,372,561	80,705,237
PROFESSIONAL FEES	805,126	90,061	895,188	3,600,111
SUPPLIES	212,006	56,607	268,613	1,054,813
TELEPHONE	448,726	59,398	508,124	2,071,152
POSTAGE AND SHIPPING	106,239	50,381	156,620	350,436
OCCUPANCY	315,638	117,814	433,451	5,044,507
RENTAL AND MAINTENANCE OF EQUIPMENT	220,459	36,011	256,471	1,332,977
PRINTING AND PUBLICATIONS	39,082	131,304	170,387	743,904
TRAVEL	644,139	75,851	719,990	4,737,671
CONFERENCES, CONVENTIONS AND MEETINGS	160,809	18,153	178,962	445,948
SPECIFIC ASSISTANCE TO INDIVIDUALS	39,169	13,018	52,187	6,779,525
MEMBERSHIP DUES	118,315	4,166	122,482	149,430
MISCELLANEOUS	<u>2,642,738</u>	<u>2,311,987</u>	<u>4,954,725</u>	<u>6,928,550</u>
Total before depreciation and amortization	17,604,483	4,485,278	22,089,761	113,944,259
DEPRECIATION AND AMORTIZATION	<u>625,536</u>	<u>43,425</u>	<u>668,961</u>	<u>1,627,694</u>
Total expenses	<u>\$18,230,019</u>	<u>\$4,528,704</u>	<u>\$22,758,722</u>	<u>\$115,571,953</u>

See notes to financial statements.

THE CHILDREN'S HOME SOCIETY OF FLORIDA AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS FOR THE YEARS ENDED JUNE 30, 2006 AND 2005

	2006	2005
CASH FLOWS FROM OPERATING ACTIVITIES:		
Increase in net assets	\$ 2,446,298	\$ 738,710
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation and amortization	1,761,095	1,627,694
Change in unrealized (appreciation) depreciation of investments	(64,435)	72,333
Change in unrealized (gain) loss on interest rate swap	(541,404)	371,691
Provision for pension liability	(438,017)	1,861,668
Loss (gain) on the sale of investments	39,371	(52,822)
Contribution of fixed assets	(50,456)	(363,558)
Gain on sale of land, buildings and equipment	(2,017,003)	(321,235)
Provision for doubtful accounts	1,250,414	1,388,540
Decrease (increase) in receivables	1,946,427	(6,986,550)
Increase in prepaid expenses and other assets	(559,046)	(419,247)
Increase (decrease) in accounts payable	12,310	(127,279)
Increase in accrued expense	1,088,963	2,012,072
Increase in deferred revenue and other liabilities	453,764	850,911
Net cash provided by operating activities	<u>5,328,281</u>	<u>652,928</u>
CASH FLOWS FROM INVESTING ACTIVITIES:		
Decrease in restricted cash	195,201	390,962
Purchase of land, buildings and equipment	(4,007,029)	(2,945,545)
Proceeds from sale of land, buildings and equipment	2,736,130	400,212
Proceeds from sale of investments	830,621	2,421,400
Purchase of investments	(1,312,761)	(2,432,696)
Net cash used in investing activities	<u>(1,557,838)</u>	<u>(2,165,667)</u>
CASH FLOWS FROM FINANCING ACTIVITIES:		
Payments for deferred financing costs	(142,625)	(344,582)
Payments made on capital lease obligations	(56,105)	(16,549)
Proceeds from notes payable	574,226	2,000,000
Principal payments on notes payable	(286,354)	(217,965)
Net cash provided by financing activities	<u>89,142</u>	<u>1,420,904</u>
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	3,859,585	(91,835)
CASH AND CASH EQUIVALENTS—Beginning of year	<u>2,583,454</u>	<u>2,675,289</u>
CASH AND CASH EQUIVALENTS—End of year	<u>\$ 6,443,039</u>	<u>\$ 2,583,454</u>
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION—Cash paid for interest		
	<u>\$ 564,706</u>	<u>\$ 512,165</u>
SUPPLEMENTAL DISCLOSURE OF NONCASH INVESTING AND FINANCING ACTIVITIES—Assets acquired under capital lease obligations		
	<u>\$ 187,169</u>	<u>\$ 124,925</u>

THE CHILDREN'S HOME SOCIETY OF FLORIDA AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS AS OF AND FOR THE YEARS ENDED JUNE 30, 2006 AND 2005

1. NATURE OF ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES

Organization—The Children's Home Society of Florida ("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"), and Centennial Holdings – Treasure Coast, LLC ("Treasure Coast"), 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. 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.

Net assets, revenues, gains, and losses are classified based on the existence or absence of donor-imposed restrictions. CHS records all revenues and gains that are spent in the same fiscal year as unrestricted revenue. Any amounts not spent are recorded as either temporarily restricted or permanently restricted revenue if donor restrictions exist. 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 may or 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.

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.

Investments and Investment Income—CHS accounts for investments in accordance with the provisions of Financial Accounting Standards Board (“FASB”) Statement of Financial Accounting Standards No. (“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.

Land, Buildings and Equipment—Donated land, buildings and equipment are recorded at estimated fair market value at the date of contribution. Purchased assets are recorded at cost. Buildings, furniture and equipment are depreciated on a straight-line basis over their estimated useful lives, which range from 3 to 40 years.

Impairment of Long-Lived Assets to be Disposed of—CHS reviews the recoverability of long-lived assets whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. CHS believes no impairment of its long-lived assets existed at June 30, 2006 or 2005.

Deferred Financing Costs—Deferred financing costs are recorded net of accumulated amortization of \$125,131 and \$46,409 at June 30, 2006 and 2005, 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.

CHS receives certain revenues from public agencies, which are subject to periodic audit and retroactive adjustments. At June 30, 2006 and 2005, a provision of \$1,937,454 and \$2,131,305, respectively, has been made to the accompanying financial statements for any periodic audit or 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 statement 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 statements of activities were approximately \$307,600 and \$185,800 for the years ended June 30, 2006 and 2005, respectively.

Derivatives—CHS recognizes all derivatives in the statements of financial position at fair value. CHS has identified an interest rate swap, obtained in conjunction with a promissory note (see Note 7), as a nonhedge derivative.

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 each reporting period. Actual results could differ from those estimates.

Income Taxes—CHS is a not-for-profit corporation, which is exempt from payment of federal and state income taxes.

New Accounting Pronouncements—The FASB and other entities issued new or modifications to, or interpretations of, existing accounting guidance during 2006 and 2005. CHS has carefully considered the new pronouncements that altered generally accepted accounting principles, and do not believe that any other new or modified principles will have a material impact on CHS' reported financial position or operations in the near term.

2. RESTRICTED NET ASSETS

Temporarily Restricted—Temporarily restricted net assets as of June 30, 2006 and 2005, are available for the following purposes:

	2006	2005
Henry Training Fund	\$ 307,734	\$ 307,815
Children's emergency medical services	234,936	234,999
Blalock Trust	-	153,341
Joshua House	61,192	61,208
President's Scholarship Fund	3,881	3,882
Essary Fund	-	533
	<u>\$ 607,743</u>	<u>\$ 761,778</u>

As of June 30, 2006 and 2005, net assets of \$387,649 and \$958,401 were released from donor restrictions by incurring expenses satisfying the restricted purposes or by occurrence of other events specified by donors.

3. ACCOUNTS RECEIVABLE

At June 30, 2006 and 2005, accounts receivable consisted of the following:

	2006	2005
Medicaid	\$ 4,440,707	\$ 9,625,587
Government contracts	3,719,965	6,521,471
Community based care	12,141,885	5,909,772
Other	1,996,033	2,953,220
Pledges	873,634	696,907
Adoptive fees	90,710	62,512
United Way	<u>16,321</u>	<u>55,221</u>
 Total receivables	 23,279,255	 25,824,690
Less allowance for doubtful accounts	(1,493,791)	(840,674)
Less pledge discount	<u>(17,513)</u>	<u>(19,221)</u>
 Accounts receivable—net	 <u>\$21,767,951</u>	 <u>\$24,964,795</u>

4. INVESTMENTS

At June 30, 2006, the investments consisted of the following:

Description	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	<u>1,847,728</u>	<u>(84,483)</u>	<u>1,763,245</u>
	<u>\$4,520,174</u>	<u>\$ 64,435</u>	<u>\$4,584,609</u>

At June 30, 2005, the investments consisted of the following:

Description	Cost	Net Unrealized Gain (Loss)	Fair Value
Certificates of deposit	\$ 170,582	\$ -	\$ 170,582
Stocks, principally common	2,228,570	7,832	2,236,402
Corporate bonds	379,422	12,273	391,695
U.S. Government obligations	<u>1,297,087</u>	<u>(18,361)</u>	<u>1,278,726</u>
	<u>\$4,075,661</u>	<u>\$ 1,744</u>	<u>\$4,077,405</u>

5. LAND, BUILDINGS, AND EQUIPMENT

At June 30, 2006 and 2005, land, buildings, and equipment consisted of the following:

	2006	2005
Land	\$ 4,185,525	\$ 4,219,458
Buildings	28,601,664	26,462,887
Furniture and equipment	14,482,772	12,976,846
Leasehold improvements	1,034,418	1,211,198
Construction in progress	<u>336,118</u>	<u>364,794</u>
	48,640,497	45,235,183
Less accumulated depreciation	<u>(15,500,813)</u>	<u>(14,283,612)</u>
Land, buildings and equipment—net	<u>\$33,139,685</u>	<u>\$30,951,571</u>

Depreciation expense for the years ended June 30, 2006 and 2005, was approximately \$1,583,800 and \$1,511,000, respectively.

6. ACCRUED EXPENSES

At June 30, 2006 and 2005, accrued expenses consisted of the following:

	2006	2005
Accrued salaries and benefits	\$ 4,982,420	\$ 5,091,636
Accrued vacation	3,245,744	3,026,785
Fair value of interest rate swap	557,400	1,098,804
Pension liability	2,465,327	2,087,463
Other	<u>194,083</u>	<u>30,744</u>
Accrued expenses	<u>\$11,444,974</u>	<u>\$11,335,432</u>

7. NOTES PAYABLE AND REVOLVING LINE OF CREDIT

Notes payable and revolving line of credit consist of the following:

	2006	2005
Promissory note dated May 1, 2002 with an original principal balance of \$10 million. Promissory note bears interest at a fixed rate of 4.34%. The promissory note has a maturity date of May 1, 2032. The note is redeemable by CHS in whole or in part, and calls for quarterly partial redemption payments deposited into an escrow account. Promissory note is collateralized by a letter of credit (see Note 8) and by existing land and buildings with a book value of approximately \$11.5 million.	\$9,360,000	\$9,525,000
Note payable dated January 5, 2005 with an original balance of \$2 million to finance eleven residential real estate properties. The note bears interest at 5% for the first two years and adjusts in year three to the three-year Treasury rate plus 2.5%. The note is collateralized by the eleven real estate properties located in the Miami-Dade, Florida area with a book value of approximately \$2,016,000. The loan matures in May 2010.	1,910,934	1,970,768
Mortgage payable with an original balance of \$175,980 dated April 1, 1996, payable to a bank; interest at 6.27%. Principal and interest payments are due monthly and was paid off in August 2005.	-	57,387
Mortgage payable with an original balance of \$247,000 dated November 15, 2005, payable to a bank; interest at 6.5%. Principal and interest payments are due monthly and note matures in November 2035.	245,212	-
Construction loan with an original balance of \$327,226 dated January 10, 2006, payable to a bank. Interest only payments are due monthly at a rate of prime plus 0.5% (8.75%) through January 10, 2008. This loan provides for advances up to \$2,139,000 and automatically converts in January 2008 to a term loan where principal and interest payments are due monthly and matures in January 2018.	324,946	-
	-	-
	<u>\$ 11,841,092</u>	<u>\$ 11,553,155</u>

As of June 30, 2006, notes payable mature as follows:

2007	\$ 572,000
2008	261,000
2009	274,000
2010	1,916,000
2011	224,000
Thereafter	<u>8,594,092</u>
	<u>\$ 11,841,092</u>

Effective May 2002, CHS entered into a 30-year interest rate swap agreement with a notional amount of \$9,360,000. 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 one-month LIBOR. The agreement terminates in May 2032. For the years ended June 30, 2006 and 2005, the interest rate swap had a negative fair value of approximately \$557,400 and \$1,098,800, resulting in a gain/(loss) of approximately \$541,404 and \$(371,700), respectively, which is reflected in the accompanying consolidated statements of activities.

As of June 30, 2005, CHS had a revolving line of credit with a bank with a zero balance. Under the revolving line of credit, CHS can borrow up to \$3,500,000. Interest is based on the one-month LIBOR rate plus 1.25%. During 2006, this line of credit was terminated.

During 2006, CHS entered into 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 .75%. This line is secured by investments with a fair market value of approximately \$4,634,000 as of June 30, 2006. 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%. This line of credit is unsecured. Both lines of credit had a zero balance as of June 30, 2006.

On April 22, 2005, Centennial Finance established an unsecured \$5,000,000 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. Currently, four community based care agencies are eligible to participate in the line of credit. Each agency has established guarantees, including CHS, to the bank for the benefit of Centennial Finance in the aggregate amount of \$5,000,000, in the event of default by Centennial Finance. As of June 30, 2006 and 2005, no amounts have been drawn against the line of credit for the benefit of the community based care agencies. As of July 1, 2006, the line of credit was reduced to \$2M.

Subsequent to the year ended June 30, 2006, CHS obtained additional advances of approximately \$1,478,000 under the construction loan.

8. LETTER OF CREDIT

On May 1, 2002, CHS entered into a letter of credit agreement for \$10,000,000, which expires on May 15, 2007, to support the \$10,000,000 promissory note (see Note 7). The letter of credit, if drawn upon, bears interest at an assumed maximum rate of interest of 15% per annum. No amount has been drawn against the letter of credit at June 30, 2006 and 2005.

9. COMMITMENTS

Leases—Certain premises used by operating divisions are occupied under short-term operating leases, ranging up to seven years. Rent expense under all leases was approximately \$3,261,600 and \$2,657,500 for the years ended June 30, 2006 and 2005, respectively.

CHS leases certain land and buildings from Children's Building, Inc., an unrelated party, which are classified as operating leases. Children's Building, Inc. contributed on December 8, 2004, and Centennial received as a contribution, a building from Children's Building, Inc. with a fair value of approximately \$310,000 as determined by an independent appraisal. Rent expense under these leases was approximately \$0 and \$15,000 for the years ended June 30, 2006 and 2005, respectively.

On November 12, 2004, CHS entered into a capital lease with an annual interest rate of 5.7% for office equipment. The lease expires in 2010. As of June 30, 2006 and 2005, the remaining liability on this lease was approximately \$85,200 and \$108,400, respectively.

During 2006, CHS entered into seven new capital leases with annual interest rates ranging from 7.0% to 18.1% for office equipment with a total value of approximately \$312,000. These leases expire in 2011. As of June 30, 2006, the remaining liability on these leases was approximately \$278,500.

Future minimum lease payments under capital and operating leases together with the present value of the net minimum lease payments as of June 30, 2006, are as follows:

Year Ending June 30	Capital Leases	Operating Leases
2007	\$ 103,578	\$ 3,041,656
2008	106,665	2,562,761
2009	106,665	1,956,641
2010	92,202	1,737,536
2011	36,948	904,790
Thereafter	<u>-</u>	<u>-</u>
Total minimum lease payments	446,058	<u>\$ 10,203,384</u>
Less amounts representing interest	<u>82,394</u>	
Present value of minimum lease payments	<u>\$ 363,664</u>	

Effective 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. CHS is currently in negotiation to renew the subcontract with the tenant. Future minimum lease receipts under the operating lease as of June 30, 2006 was \$73,200 and has been collected in fiscal year 2007.

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 following tables provide a reconciliation of the changes in the Plan's benefit obligations and fair value of assets over the two-year period ending June 30, 2006, and a statement of the funded status as of June 30 of both years:

Reconciliation of Benefit Obligation	2006	2005
Projected benefit obligation at beginning of year	\$ 25,208,581	\$ 19,961,058
Service cost	2,150,913	1,900,765
Interest cost	1,258,824	1,211,623
Actuarial (gain) loss	(1,322,372)	3,492,858
Benefit payments	<u>(2,321,733)</u>	<u>(1,357,723)</u>
Projected benefit obligation at end of year	<u>\$ 24,974,213</u>	<u>\$ 25,208,581</u>
Accumulated benefit obligation at end of year	<u>\$ 21,076,747</u>	<u>\$ 20,437,963</u>
 Reconciliation of Fair Value of Plan Assets		
Fair value of plan assets at beginning of year	\$ 18,277,453	\$ 16,677,923
Actual return on plan assets	908,937	1,118,189
Employer contributions	1,458,000	1,839,064
Benefit payments	<u>(2,321,733)</u>	<u>(1,357,723)</u>
Fair value of plan assets at end of year	<u>\$ 18,322,657</u>	<u>\$ 18,277,453</u>
 Funded Status		
Funded status at end of year	\$ (6,651,556)	\$ (6,931,128)
Unrecognized prior service cost	62,968	73,047
Unrecognized loss	<u>5,321,117</u>	<u>6,632,286</u>
Net amount recognized	<u>\$ (1,267,471)</u>	<u>\$ (225,795)</u>

Amounts recognized in the statements of financial position consist of:

	2006	2005
Accrued benefit cost	\$ (2,754,090)	\$ (2,160,510)
Intangible asset	62,968	73,047
Minimum liability adjustment	<u>1,423,651</u>	<u>1,861,668</u>
Net amount recognized	<u>\$ (1,267,471)</u>	<u>\$ (225,795)</u>

CHS' pension plan weighted-average asset allocations at June 30, 2006 and 2005, by asset category are as follows:

	Target Allocation 2007	Percentage of Plan Assets at June 30	
		2006	2005
Equity Securities	55 %	59 %	60 %
Debt Securities	45	41	39
Other	-	-	1
Total	<u>100 %</u>	<u>100 %</u>	<u>100 %</u>

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 2006 and 2005, are as follows:

	2006	2005
Service cost	\$ 2,150,913	\$ 1,900,765
Interest cost	1,258,824	1,211,623
Expected return on plan assets	(1,432,456)	(1,290,511)
Amortization of net loss	512,316	95,869
Amortization of prior service cost	<u>10,079</u>	<u>10,079</u>
Net periodic benefit cost	<u>\$ 2,499,676</u>	<u>\$ 1,927,825</u>

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 and estimated contributions and benefit payments are as follows:

Expected contributions for fiscal year ending June 30, 2007:	
Expected employer contributions	\$ 1,900,000
Expected employee contributions	<u>-</u>
Total expected contributions	<u>\$ 1,900,000</u>
Estimated future benefit payments reflecting expected future service for the fiscal years ending June 30:	
2007	\$ 1,561,000
2008	2,030,000
2009	2,423,000
2010	2,483,000
2011	3,499,000
2012-2016	19,920,000

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

Weighted-average Assumptions as of June 30	2006	2005
Discount rate	6.50 %	5.25 %
Expected return on plan assets	8.00	8.00
Rate of compensation increase	5.00	5.00
Other Accounting Disclosures	2006	2005
Market-related value of assets	\$ 18,277,453	\$ 16,677,923
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, 2006	June 30, 2005

11. 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 advice of legal counsel, the amount of ultimate liability with respect to these actions will not materially affect the financial position of CHS.

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