

# McGladrey & Pullen

Certified Public Accountants

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

Consolidated Financial Report

June 30, 2009 and 2008

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# McGladrey & Pullen

Certified Public Accountants

## Independent Auditor's Report

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

We have audited the accompanying consolidated statements of financial position of The Children's Home Society of Florida and Subsidiaries as of June 30, 2009 and 2008, and the related consolidated statements of activities, functional expenses and cash flows for the years then ended. These consolidated financial statements are the responsibility of The Children's Home Society of Florida and Subsidiaries' management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

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

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of The Children's Home Society of Florida and Subsidiaries as of June 30, 2009 and 2008, and the changes in their net assets and their cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

As described in Note 14 to the consolidated financial statements, the 2008 consolidated financial statements have been restated for a correction of an error in the recording of the beneficial interest in the net assets of The Children's Home Society of Florida Foundation, Inc.

*McGladrey & Pullen, LLP*

Orlando, Florida  
December 11, 2009

The Children's Home Society of Florida and Subsidiaries

Consolidated Statements of Financial Position  
June 30, 2009 and 2008

	2009	2008 (as restated)
<b>Assets</b>		
Cash and cash equivalents	\$ 12,322,177	\$ 12,708,869
Accounts receivable, net	11,815,964	12,953,294
Prepaid expenses and other assets	2,727,199	2,776,088
Investments	5,025,083	5,594,477
Restricted cash and certificate of deposit	2,136,937	3,301,550
Beneficial interest in the net assets of The Children's Home Society of Florida Foundation, Inc.	11,692,706	14,396,784
Property and equipment, net	37,198,364	37,330,701
<b>Total assets</b>	<b>\$ 82,918,430</b>	<b>\$ 89,061,763</b>
<b>Liabilities and Net Assets</b>		
<b>Liabilities</b>		
Accounts payable	\$ 1,881,306	\$ 1,571,823
Accrued expenses	10,355,288	9,942,925
Pension liability	9,160,140	8,149,292
Held in custody for account of others	594,887	658,891
Deferred revenue and other liabilities	1,083,113	999,944
Capital lease obligations	366,288	629,944
Long-term debt	18,396,759	18,669,549
<b>Total liabilities</b>	<b>41,837,781</b>	<b>40,622,368</b>
<b>Net Assets</b>		
Unrestricted	28,784,239	33,437,002
Temporarily restricted	4,699,418	7,441,951
Permanently restricted	7,596,992	7,560,442
<b>Total net assets</b>	<b>41,080,649</b>	<b>48,439,395</b>
<b>Total liabilities and net assets</b>	<b>\$ 82,918,430</b>	<b>\$ 89,061,763</b>

See Notes to Consolidated Financial Statements.

The Children's Home Society of Florida and Subsidiaries

Consolidated Statements of Activities  
Years Ended June 30, 2009 and 2008

	2009	2008 (as restated)
Changes in unrestricted net assets:		
Public support:		
United Way	\$ 2,324,978	\$ 2,540,851
Bequests, contributions, and special events	8,654,422	11,888,933
<b>Total public support</b>	<b>10,979,400</b>	<b>14,429,784</b>
Revenue from service contracts	93,212,085	98,420,505
Adoptive and other service fees	1,613,426	1,529,648
Investment income	244,376	488,044
Realized loss on sale of investments	(25,709)	(156,055)
Change in unrealized depreciation of investments	(880,763)	(19,161)
Other revenue	710,500	761,735
<b>Total public support and unrestricted revenues</b>	<b>105,853,315</b>	<b>115,454,500</b>
Net assets released from restrictions by satisfaction of program restrictions	862,777	873,119
<b>Total public support, unrestricted revenues and other support</b>	<b>106,716,092</b>	<b>116,327,619</b>
Expenses:		
Program services	90,798,015	95,792,282
Supporting services	17,043,872	17,505,720
<b>Total expenses</b>	<b>107,841,887</b>	<b>113,298,002</b>
<b>(Decrease) increase in unrestricted net assets before other changes</b>	<b>(1,125,795)</b>	<b>3,029,617</b>
Other changes:		
Unrealized loss on interest rate swap	(1,153,400)	(552,600)
Pension expense	(2,373,568)	(4,878,309)
<b>Decrease in other changes</b>	<b>(3,526,968)</b>	<b>(5,430,909)</b>
<b>Decrease in unrestricted net assets</b>	<b>(4,652,763)</b>	<b>(2,401,292)</b>
Changes in temporarily restricted net assets:		
Bequests and contributions	309,698	423,096
Net assets released from restrictions by satisfaction of program restrictions	(862,777)	(873,119)
Change in beneficial interest in the net assets of The Children's Home Society of Florida Foundation, Inc.	(2,189,454)	(496,738)
<b>Decrease in temporarily restricted net assets</b>	<b>(2,742,533)</b>	<b>(946,761)</b>
Changes in permanently restricted net assets – change in beneficial interest in the net assets of The Children's Home Society of Florida Foundation, Inc.		
	36,550	-
<b>Decrease in net assets</b>	<b>(7,358,746)</b>	<b>(3,348,053)</b>
Net assets:		
Beginning	48,439,395	51,787,448
Ending	<b>\$ 41,080,649</b>	<b>\$ 48,439,395</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, 2009

	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	\$ 1,120,920	\$ 276,425	\$ 1,335,114	\$ 3,628,820	\$ 51,429	\$ 4,120,264	\$ 796,307
Employee benefits	160,807	45,985	199,426	511,709	13,158	680,871	130,779
Payroll taxes and other	106,484	27,674	150,537	362,286	4,264	373,975	64,947
<b>Total salaries and related expenses</b>	<b>1,388,211</b>	<b>350,084</b>	<b>1,685,077</b>	<b>4,502,815</b>	<b>68,851</b>	<b>5,175,110</b>	<b>992,033</b>
Professional fees	3,536	813	168,664	102,828	285	521,513	40,002
Supplies	11,442	2,630	19,953	47,883	446	67,577	9,068
Telephone	14,003	14,043	43,553	91,381	1,861	142,023	18,136
Postage and shipping	1,266	1,373	5,957	13,056	237	16,267	6,947
Occupancy	65,698	37,554	161,558	526,448	11,143	470,575	208,389
Rental and maintenance of equipment	4,151	5,143	34,366	49,423	902	48,308	6,976
Printing and publications	1,830	948	4,506	64,612	-	23,396	5,863
Travel	53,458	22,035	99,431	311,891	3,255	319,647	45,550
Conferences, conventions and meetings	9,773	399	7,357	10,740	45	5,676	167
Specific assistance to individuals	196	22,454	55,975	265,822	39	105,098	706,788
Membership dues	150	7	766	647	17	1,626	110
Interest	(439)	-	40	36	-	1,862	-
Insurance	5,394	2,398	11,762	60,516	844	39,275	7,050
Provision for bad debt	-	-	-	-	-	-	-
Contributed goods	150	6,705	99,288	201,476	5,545	202,183	-
Other	7,574	24,303	36,717	117,748	1,406	76,068	22,000
<b>Total before depreciation and amortization</b>	<b>178,182</b>	<b>140,805</b>	<b>749,893</b>	<b>1,864,507</b>	<b>26,025</b>	<b>2,041,094</b>	<b>1,077,046</b>
Depreciation and amortization	53,592	2,806	25,457	60,876	973	52,264	3,985
<b>Total expenses</b>	<b>\$ 1,619,985</b>	<b>\$ 493,695</b>	<b>\$ 2,460,427</b>	<b>\$ 6,428,198</b>	<b>\$ 95,849</b>	<b>\$ 7,268,468</b>	<b>\$ 2,073,064</b>

The Children's Home Society of Florida and Subsidiaries

Consolidated Statement of Functional Expenses (Continued)  
Year Ended June 30, 2009

	Program Services						
	Daycare	Case Management/ Development Services	Case Management, Mental Health	Home-Based Family Centered Casework	Homemaker	Intensive Family Preservation	Emergency Shelter/ Runaway
Salaries	\$ 1,200,963	\$ 15,365,240	\$ 7,154,514	\$ 535,084	\$ 606,907	\$ 3,471,547	\$ 2,532,549
Employee benefits	125,398	2,122,215	1,028,335	78,661	124,161	491,510	350,079
Payroll taxes and other	112,492	1,390,631	640,885	76,851	57,353	395,317	313,141
<b>Total salaries and related expenses</b>	<b>1,438,853</b>	<b>18,878,086</b>	<b>8,823,734</b>	<b>690,596</b>	<b>788,421</b>	<b>4,358,374</b>	<b>3,195,769</b>
Professional fees	96,007	139,661	296,617	26,842	2,194	28,287	55,723
Supplies	25,567	121,683	88,427	4,382	6,163	34,185	18,308
Telephone	32,384	330,825	176,791	18,120	20,170	97,613	87,773
Postage and shipping	2,725	46,468	22,104	1,211	1,569	6,469	5,708
Occupancy	338,617	906,516	1,145,496	59,711	118,060	416,803	542,354
Rental and maintenance of equipment	29,870	166,685	110,713	12,597	9,335	40,833	73,605
Printing and publications	15,748	9,173	11,357	637	1,228	3,480	7,309
Travel	34,780	1,515,729	532,930	29,514	58,610	328,817	128,856
Conferences, conventions and meetings	4,208	16,154	14,861	864	9	9,533	3,868
Specific assistance to individuals	128,176	1,179,437	427,293	28,931	4,831	95,973	240,367
Membership dues	440	4,085	12,148	70	49	282	16,084
Interest	11,741	-	5	-	-	-	25,744
Insurance	12,034	297,787	107,420	5,362	5,722	30,668	32,754
Provision for bad debt	57,980	-	-	-	-	-	-
Contributed goods	2,682	22,237	39,154	12,173	7,616	149,449	71,504
Other	17,255	249,653	108,619	9,359	9,607	69,409	55,257
<b>Total before depreciation and amortization</b>	<b>810,214</b>	<b>5,006,093</b>	<b>3,093,935</b>	<b>209,773</b>	<b>245,163</b>	<b>1,311,801</b>	<b>1,365,214</b>
Depreciation and amortization	17,480	121,647	36,426	10,433	4,162	33,880	135,369
<b>Total expenses</b>	<b>\$ 2,266,547</b>	<b>\$ 24,005,826</b>	<b>\$ 11,954,095</b>	<b>\$ 910,802</b>	<b>\$ 1,037,746</b>	<b>\$ 5,704,055</b>	<b>\$ 4,696,352</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, 2009

	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	Total Supporting Services	
Salaries	\$ 3,995,730	\$ 598,549	\$ 4,530,366	\$ 853,425	52,174,153	\$ 6,557,953	\$ 1,684,308	\$ 8,242,261	\$ 60,416,414
Employee benefits	572,326	106,922	586,056	116,031	7,444,429	1,253,173	224,248	1,477,421	8,921,850
Payroll taxes and other	424,637	57,611	441,199	88,235	5,088,519	606,041	160,402	766,443	5,854,962
<b>Total salaries and related expenses</b>	<b>4,992,693</b>	<b>763,082</b>	<b>5,557,621</b>	<b>1,057,691</b>	<b>64,707,101</b>	<b>8,417,167</b>	<b>2,068,958</b>	<b>10,486,125</b>	<b>75,193,226</b>
Professional fees	290,160	11,663	135,291	53,265	1,973,351	341,262	272,657	613,919	2,587,270
Supplies	39,153	6,266	39,270	13,150	555,553	91,206	40,162	131,368	686,921
Telephone	92,750	23,931	134,650	21,696	1,361,703	468,337	69,789	538,126	1,899,829
Postage and shipping	12,738	1,336	16,459	11,106	172,996	52,400	28,997	81,397	254,393
Occupancy	354,332	125,759	837,045	81,852	6,407,910	(233,144)	207,054	(26,090)	6,381,820
Rental and maintenance of equipment	87,247	12,569	123,938	16,357	833,018	(119,375)	31,427	(87,948)	745,070
Printing and publications	5,863	861	6,113	121,595	284,519	38,716	66,510	105,226	389,745
Travel	306,650	37,360	255,570	24,238	4,108,321	368,552	90,329	458,881	4,567,202
Conferences, conventions and meetings	15,394	362	7,704	9,117	116,231	47,288	31,480	78,768	194,999
Specific assistance to individuals	1,558,747	2,572	693,713	2,620	5,519,032	3,836	40,362	44,198	5,563,230
Membership dues	788	92	980	2,282	40,623	68,044	6,042	74,086	114,709
Interest	2,760	3,678	39,092	2,782	87,301	610,124	(47)	610,077	697,378
Insurance	61,215	6,055	55,351	5,842	747,449	41,283	12,146	53,429	800,878
Provision for bad debt	-	-	-	-	57,980	332,640	-	332,640	390,620
Contributed goods	56,310	31,154	273,097	-	1,180,723	633,354	439,709	1,073,063	2,253,786
Other	98,960	62,380	574,327	73,540	1,614,182	98,805	1,015,406	1,114,211	2,728,393
<b>Total before depreciation and amortization</b>	<b>2,983,067</b>	<b>326,038</b>	<b>3,192,600</b>	<b>439,442</b>	<b>25,060,892</b>	<b>2,843,328</b>	<b>2,352,023</b>	<b>5,195,351</b>	<b>30,256,243</b>
Depreciation and amortization	91,685	33,792	330,220	14,975	1,030,022	1,317,387	45,009	1,362,396	2,392,418
<b>Total expenses</b>	<b>\$ 8,067,445</b>	<b>\$ 1,122,912</b>	<b>\$ 9,080,441</b>	<b>\$ 1,512,108</b>	<b>\$ 90,798,015</b>	<b>\$ 12,577,882</b>	<b>\$ 4,465,990</b>	<b>\$ 17,043,872</b>	<b>\$ 107,841,887</b>

See Notes to Consolidated Financial Statements.

The Children's Home Society of Florida and Subsidiaries

Consolidated Statement of Functional Expenses  
Year Ended June 30, 2008

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

See Notes to Consolidated Financial Statements.

The Children's Home Society of Florida and Subsidiaries

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

	Program Services						
	Daycare	Case Management/ Development Services	Case Management, Mental Health	Home-Based Family Centered Casework	Homemaker	Intensive Family Preservation	Emergency Shelter/ Runaway
Salaries	\$ 996,154	\$ 15,651,086	\$ 6,807,262	\$ 739,864	\$ 660,160	\$ 4,001,149	\$ 3,451,991
Employee benefits	91,759	2,098,585	929,743	86,388	133,118	534,710	433,686
Payroll taxes and other	87,263	1,330,918	607,632	64,040	52,688	348,229	314,495
<b>Total salaries and related expenses</b>	<b>1,175,176</b>	<b>19,080,589</b>	<b>8,344,637</b>	<b>890,292</b>	<b>845,966</b>	<b>4,884,088</b>	<b>4,200,172</b>
Professional fees	81,110	161,576	338,411	30,789	1,948	15,207	113,778
Supplies	13,310	119,460	80,443	5,924	8,952	39,114	26,415
Telephone	23,963	338,584	156,709	22,959	24,380	121,920	85,841
Postage and shipping	2,746	44,594	21,517	1,317	1,499	10,881	8,875
Occupancy	145,585	900,301	1,014,172	86,564	120,668	416,084	548,968
Rental and maintenance of equipment	12,840	204,134	111,537	20,059	24,636	81,802	75,865
Printing and publications	7,166	19,720	10,433	1,318	1,221	32,350	7,361
Travel	31,532	1,434,075	517,398	44,230	64,521	319,635	162,267
Conferences, conventions and meetings	2,721	15,176	15,055	4,213	598	9,109	8,004
Specific assistance to individuals	139,312	1,151,565	334,201	40,405	4,726	128,494	409,593
Membership dues	145	1,578	10,177	150	130	345	16,619
Interest	36,655	18	42	-	-	44	28,484
Insurance	10,334	436,624	155,815	5,340	5,400	27,063	30,792
Provision for bad debt	-	-	-	-	-	-	-
Contributed goods	4,276	36,519	24,889	4,693	11,011	135,084	104,535
Other	13,498	245,862	119,197	12,319	9,341	73,621	73,080
<b>Total before depreciation and amortization</b>	<b>525,193</b>	<b>5,109,786</b>	<b>2,909,996</b>	<b>280,280</b>	<b>279,031</b>	<b>1,410,753</b>	<b>1,700,477</b>
Depreciation and amortization	14,908	136,250	33,172	17,662	5,309	38,986	144,387
<b>Total expenses</b>	<b>\$ 1,715,277</b>	<b>\$ 24,326,625</b>	<b>\$ 11,287,805</b>	<b>\$ 1,188,234</b>	<b>\$ 1,130,306</b>	<b>\$ 6,333,827</b>	<b>\$ 6,045,036</b>

See Notes to Consolidated Financial Statements.

The Children's Home Society of Florida and Subsidiaries

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

	Program Services				Total Program Services	Supporting Services			Total Functional Expenses
	Foster Care Services	Family Visitation Center	Group Care	Community Organization		Management and General	Fund Raising	Total Supporting Services	
Salaries	\$ 3,987,394	\$ 543,640	\$ 5,436,357	\$ 927,897	\$ 55,658,823	\$ 7,156,774	\$ 1,707,496	\$ 8,864,270	\$ 64,523,093
Employee benefits	523,749	92,218	740,592	131,567	7,584,827	(715,747)	228,983	(486,764)	7,098,063
Payroll taxes and other	360,738	43,869	494,194	76,153	4,900,501	638,236	137,664	775,900	5,676,401
<b>Total salaries and related expenses</b>	<b>4,871,881</b>	<b>679,727</b>	<b>6,671,143</b>	<b>1,135,617</b>	<b>68,144,151</b>	<b>7,079,263</b>	<b>2,074,143</b>	<b>9,153,406</b>	<b>77,297,557</b>
Professional fees	272,592	21,787	120,132	79,626	2,613,996	441,496	213,892	655,388	3,269,384
Supplies	44,932	5,997	38,483	27,243	601,743	103,350	47,719	151,069	752,812
Telephone	105,974	26,074	147,839	27,154	1,433,002	328,883	62,409	391,292	1,824,294
Postage and shipping	15,894	1,044	16,841	20,326	199,764	67,296	36,245	103,541	303,305
Occupancy	286,073	119,350	930,572	93,421	6,148,140	111,859	194,547	306,406	6,454,546
Rental and maintenance of equipment	97,489	24,685	160,985	19,179	1,131,643	(24,872)	47,497	22,625	1,154,268
Printing and publications	20,923	937	6,668	140,567	353,868	31,488	138,894	170,382	524,250
Travel	284,670	39,725	365,726	27,108	4,291,142	493,545	105,381	598,926	4,890,068
Conferences, conventions and meetings	7,783	891	20,156	11,212	128,308	99,290	55,879	155,169	283,477
Specific assistance to individuals	1,671,487	3,170	767,293	4,268	5,997,989	14,156	21,339	35,495	6,033,484
Membership dues	278	230	629	3,483	37,942	69,908	3,874	73,782	111,724
Interest	4,185	4,072	44,173	162	120,760	1,379,056	71	1,379,127	1,499,887
Insurance	104,352	5,511	53,091	4,916	995,166	39,476	7,296	46,772	1,041,938
Provision for bad debt	-	-	-	-	-	1,396,586	-	1,396,586	1,396,586
Contributed goods	64,699	36,238	306,709	100	1,141,774	676,885	174,966	851,851	1,993,625
Other	120,815	92,705	291,293	99,127	1,385,806	(40,584)	841,424	800,840	2,186,646
<b>Total before depreciation and amortization</b>	<b>3,102,146</b>	<b>382,416</b>	<b>3,270,590</b>	<b>557,892</b>	<b>26,581,043</b>	<b>5,187,818</b>	<b>1,951,433</b>	<b>7,139,251</b>	<b>33,720,294</b>
Depreciation and amortization	105,373	30,463	328,247	15,436	1,067,088	1,171,914	41,149	1,213,063	2,280,151
<b>Total expenses</b>	<b>\$ 8,079,400</b>	<b>\$ 1,092,606</b>	<b>\$ 10,269,980</b>	<b>\$ 1,708,945</b>	<b>\$ 95,792,282</b>	<b>\$ 13,438,995</b>	<b>\$ 4,066,725</b>	<b>\$ 17,505,720</b>	<b>\$ 113,298,002</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, 2009 and 2008

	2009	2008 (as restated)
<b>Cash Flows From Operating Activities</b>		
Decrease in net assets	\$ (7,358,746)	\$ (3,348,053)
Adjustments to reconcile decrease in net assets to net cash provided by operating activities:		
Depreciation and amortization	2,392,418	2,280,151
Write-off of deferred financing costs	-	538,454
Change in unrealized depreciation of investments	880,764	19,161
Change in unrealized loss on interest rate swap	1,153,400	552,600
Change in beneficial interest in the net assets of The Children's Home Society of Florida Foundation, Inc.	2,704,078	924,824
Provision for pension liability	1,010,848	3,374,078
Realized loss on the sale of investments	25,709	156,055
Contribution of property and equipment	(197,045)	(391,200)
Loss on sale of property and equipment	607,922	52,476
Provision for doubtful accounts	(426,137)	(714,085)
Changes in operating assets and liabilities:		
Accounts receivable	1,563,467	1,291,515
Prepaid expenses and other assets	25,469	(162,083)
Accounts payable	140,479	(1,207,677)
Accrued expense	(741,037)	11,139
Deferred revenue and other liabilities	83,169	(187,595)
<b>Net cash provided by operating activities</b>	<b>1,864,758</b>	<b>3,189,760</b>
<b>Cash Flows From Investing Activities</b>		
Decrease (increase) in restricted cash and cash equivalents	1,164,613	(2,948,966)
Purchases of property and equipment	(2,569,602)	(1,869,499)
Purchase of children facilities	-	(3,100,000)
Proceeds from sale of property and equipment	27,065	114,834
Proceeds from sale of investments	911,776	2,251,592
Purchases of investments	(1,248,856)	(2,647,750)
<b>Net cash used in investing activities</b>	<b>(1,715,004)</b>	<b>(8,199,789)</b>
<b>Cash Flows From Financing Activities</b>		
Payments for deferred financing costs	-	(286,833)
Principal payments on capital lease obligations	(263,656)	(207,719)
Proceeds from long-term debt	-	16,680,000
Principal payments on long-term debt	(272,790)	(11,390,634)
<b>Net cash (used in) provided by financing activities</b>	<b>(536,446)</b>	<b>4,794,814</b>
<b>Net decreased in cash and cash equivalents</b>	<b>(386,692)</b>	<b>(215,215)</b>
<b>Cash and cash equivalents:</b>		
Beginning	12,708,869	12,924,084
Ending	<b>\$ 12,322,177</b>	<b>\$ 12,708,869</b>

(Continued)

The Children's Home Society of Florida and Subsidiaries

Consolidated Statements of Cash Flows (Continued)  
Years Ended June 30, 2009 and 2008

	2009	2008
		(as restated)
Supplemental Disclosures of Cash Flow Information		
Cash paid during the year for interest, net of \$161,288 and \$0 capitalized interest for the years ended June 30, 2009 and 2008, respectively	<u>\$ 732,220</u>	<u>\$ 1,491,836</u>
Supplemental Disclosure of Noncash Investing and Financing Activities		
Assets acquired under capital lease obligations	<u>\$ -</u>	<u>\$ 338,798</u>
Property and equipment included in accounts payable	<u>\$ 288,838</u>	<u>\$ 119,834</u>

See Notes to Consolidated Financial Statements.

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

### Notes to Consolidated Financial Statements

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

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

Principles of consolidation: The consolidated financial statements of CHS include the accounts of CHS and Centennial Holdings, LLC (Centennial), Centennial Finance, LLC (Centennial Finance), Centennial Holdings – Treasure Coast, LLC (Treasure Coast), Centennial Holdings North Central, LLC (North Central), ECIL Capital, LLC (ECIL), Centennial Holdings Southwest, LLC (Southwest), Centennial Holdings Collier Childcare, LLC (Collier), and Children's Home Society Early Learning Initiatives, LLC (Early Learning), each a wholly owned subsidiary of CHS. Centennial was incorporated on August 11, 2003, for the purpose of holding certain real estate assets. Centennial Finance was incorporated on January 28, 2005, for the purpose of managing and administering a line of credit for certain unrelated third party agencies (dissolved on September 15, 2008). Treasure Coast was incorporated on May 11, 2005, for the purpose of holding certain real estate assets. North Central was incorporated on June 22, 2006, for the purpose of holding certain real estate assets. ECIL was incorporated on June 22, 2006, for the purpose of holding office furniture and equipment. Southwest was incorporated on March 19, 2007, for the purpose of holding certain real estate assets. Collier was incorporated on August 30, 2007, for the purpose of holding certain real estate assets. Early Learning was incorporated on August 30, 2007, for the purpose of providing child day care services. All intercompany balances have been eliminated in consolidation.

A summary of CHS' significant accounting policies follows:

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

CHS follows the provisions of Financial Accounting Standards Board (FASB) Statement of Financial Accounting Standards No. (Statement) 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.

Cash and cash equivalents: For purposes of reporting on the statements of cash flows, CHS considers demand accounts and money market accounts to be cash and money market funds to be cash equivalents. Cash and cash equivalents excludes restricted cash and certificate of deposit. Certain amounts exceeding the \$250,000 Federal Deposit Insurance Corporation (FDIC) limits were insured under the FDIC Temporary Liquidity Guarantee Program.

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

### Notes to Consolidated Financial Statements

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

Restricted cash and certificate of deposit: Restricted cash and certificate of deposit held by CHS are restricted to specific programs and bond proceeds received for the construction of facilities.

Investments and investment income: Investments are reported at fair value (see Note 6). Realized gains and losses are recorded at date of disposition based on the difference between the net proceeds and the cost of the investments sold, using the specific identification method. Unrealized gains and losses are reported for the changes in fair value between reporting periods. Interest and dividend income is recognized when earned. Investment income is reported within unrestricted net assets unless their use is temporarily restricted by explicit donor stipulations (see *Basis of Presentation*).

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, 2009 and 2008.

Beneficial interest in the net assets of The Children's Home Society of Florida Foundation, Inc. (Foundation): In accordance with guidance related to accounting for contributions held by an organization for the benefit of another organization, CHS recognizes its interest in the net assets of the Foundation in its consolidated financial statements. Distributions from the Foundation are reported as a reduction in the beneficial interest and the change in residual value of temporarily or permanently restricted net assets of the Foundation are reported as change in beneficial interest in the consolidated statement of activities.

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.

Notes to Consolidated Financial Statements

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

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

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

Revenue from service contracts: CHS is principally funded by public agencies. These public agency contracts are fixed fee or are cost reimbursement contracts. Revenue for fixed fee contracts are recognized upon CHS providing services. Revenue from cost reimbursement contracts are recognized when eligible costs are incurred.

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 \$238,700 and \$215,100 for the years ended June 30, 2009 and 2008, respectively which is included in bequests, contributions and special events in the accompanying consolidated statements of activities.

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 two interest rate swap agreements in place at June 30, 2009 and 2008. These interest rate swap agreements have been designated as cash flow hedges against variable interest rate exposure on a portion of its debt, with the objective of minimizing the impact of interest rate fluctuations and stabilizing cash flows.

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.

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

### Notes to Consolidated Financial Statements

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

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

Fair value of financial instruments: At June 30, 2009 and 2008, CHS' financial instruments consist of cash and cash equivalents, accounts receivable, investments, restricted cash and cash equivalents, accounts payable, interest rate swaps, bonds payable, and other borrowings. The fair values of CHS' financial instruments excluding interest rate swaps, bonds payable, other borrowings and investments approximate their fair values because of the short-term nature of these instruments. Investments are stated at fair value based on quoted market prices. The fair value of CHS's interest rate swap contract (used for purposes other than trading) is the estimated amount CHS would pay to terminate these agreements at the reporting date, taking into account current interest rates and the creditworthiness of the counterparty for assets and creditworthiness of CHS for liabilities. Interest rate swaps are recorded at fair value and therefore, carrying values equal fair value in the accompanying consolidated financial statements. 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 not materially different from fair value based upon maturities and similar credit risk comparisons available to CHS at June 30, 2009 and 2008.

New accounting pronouncements: In June 2006, the FASB issued Interpretation No. 48 (FIN 48), *Accounting for Uncertainty in Income Taxes – an Interpretation of FASB Statement 109*. FIN 48 clarifies the accounting for uncertainty in income taxes recognized in an organization's financial statements in accordance with Statement 109, Accounting for Income Taxes. FIN 48 prescribes a comprehensive model for recognizing, measuring, presenting and disclosing in the financial statements tax positions taken or expected to be taken on a tax return, including positions on unrelated business income when the organization is exempt from income taxes. If there are changes in net assets as a result of application of FIN 48 these will be accounted for as an adjustment to the opening balance of net assets. Additional disclosures about the amounts of such liabilities will be required also. CHS presently recognizes uncertain income tax positions based on management's estimate of whether it is probable that a liability has been incurred under Statement 5, *Accounting for Contingencies*. CHS has elected to defer the application of FIN 48 in accordance with FASB Staff Position (FSP) FIN 48-3. This FSP defers the effective date of FIN 48 for nonpublic enterprises included within its scope to the annual financial statements for fiscal years beginning after December 15, 2008. CHS will be required to adopt FIN 48 in its 2010 annual financial statements. Management has not determined the impact of FIN 48, if any, on its financial statements for the adoption of FIN 48.

The FASB and other entities issued new or modifications to, or interpretations of, existing accounting guidance during 2009 and 2008. CHS has carefully considered the new pronouncements that altered generally accepted accounting principles, and other than as disclosed in these notes to the consolidated financial statements, does not believe that any other new or modified principles will have a material impact on CHS' reported financial position or activities in the near term.

Subsequent events: Management has assessed subsequent events through December 11, 2009, the date the consolidated financial statements were available to be issued. All subsequent events requiring recognition as of December 11, 2009 have been incorporated into these consolidated financial statements.

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

### Notes to Consolidated Financial Statements

#### Note 2. Temporarily and Permanently Restricted Net Assets

Temporarily restricted net assets as of June 30, 2009 and 2008, are available for the following purposes:

	2009	2008
Beneficial interest in the net assets of The Children's Home Society of Florida Foundation, Inc.	\$ 4,095,714	\$ 6,836,342
Henry Training Fund	305,689	306,654
Children's Emergency Medical Services	233,375	234,111
Joshua House	60,783	60,976
President's Scholarship Fund	3,857	3,868
	<u>\$ 4,699,418</u>	<u>\$ 7,441,951</u>

As of June 30, 2009 and 2008, net assets of \$862,777 and \$873,119, respectively, were released from donor restrictions by incurring expenses satisfying the restricted purposes or by occurrence of other events specified by donors.

Permanently restricted net assets of \$7,596,992 and \$7,560,442 at June 30, 2009 and 2008, respectively, represents the beneficial interest in the net assets of Foundation and consists primarily of endowments whereby the principal is permanently restricted in accordance with donor stipulations.

#### Note 3. Accounts Receivable

Accounts receivable consisted of the following at June 30, 2009 and 2008:

	2009	2008
Community based care	\$ 6,202,044	\$ 7,107,632
Government contracts	2,748,027	2,619,540
Pledges	1,307,063	1,756,386
Medicaid	844,053	1,419,100
Other	1,295,918	1,030,255
Adoptive fees	47,821	65,821
United Way	-	19,731
	<u>12,444,926</u>	<u>14,018,465</u>
Less allowance for doubtful accounts	(582,616)	(1,008,753)
Less discount for time-value of money	(46,346)	(56,418)
	<u>\$ 11,815,964</u>	<u>\$ 12,953,294</u>

The Children's Home Society of Florida and Subsidiaries

Notes to Consolidated Financial Statements

**Note 3. Accounts Receivable (Continued)**

Pledges that are included above and are considered unconditional promises to give at June 30, 2009 are summarized as follows:

Amounts due:		
Within one year	\$	659,970
One to five years		591,358
More than five years		55,735
		<u>1,307,063</u>
Less allowance for doubtful accounts		(117,636)
Less discount for time-value of money		(46,346)
	\$	<u><u>1,143,081</u></u>

**Note 4. Investments**

Investments consisted of the following at June 30, 2009 and 2008:

Description	2009		
	Cost	Net Unrealized (Loss) Gain	Fair Value
Equity securities	\$ 2,916,962	\$ (427,301)	\$ 2,489,661
Corporate bonds	871,798	(658)	871,140
U.S. Government obligations	1,616,614	47,668	1,664,282
	<u>\$ 5,405,374</u>	<u>\$ (380,291)</u>	<u>\$ 5,025,083</u>

  

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

## 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, 2009 and 2008:

	2009	2008
Land	\$ 5,235,302	\$ 5,229,833
Buildings and improvements	32,405,584	32,855,789
Furniture and equipment	18,483,948	17,303,468
Leasehold improvements	1,016,789	1,045,915
Construction in progress	1,898,596	537,648
	<u>59,040,219</u>	<u>56,972,653</u>
Less accumulated depreciation	(21,841,855)	(19,641,952)
	<u>\$ 37,198,364</u>	<u>\$ 37,330,701</u>

Depreciation and amortization expense of property and equipment for the years ended June 30, 2009 and 2008, was approximately \$2,369,000 and \$2,249,400, respectively.

#### Note 6. Fair Value Measurements

In September 2006, the FASB issued Statement 157, *Fair Value Measurements*. This statement establishes a single authoritative definition of fair value, sets out a framework for measuring fair value, and requires additional disclosures for instruments carried at fair value. The statement applies only to fair value measurements, which are already required or permitted by other accounting standards. Accordingly, this statement does not require any new fair value measurements. Statement 157 clarifies that fair value is an exit price, representing the amount that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants. Under Statement 157, fair value measurements are not adjusted for transaction costs. Accordingly, CHS adopted the required provisions of Statement 157 at the beginning of fiscal year 2009 and the remaining provisions will be adopted by CHS at the beginning of fiscal year 2010. The fiscal year 2009 adoption did not result in a material impact to CHS's consolidated financial statements.

On February 12, 2008, the FASB issued Staff Position 157-2, which delayed the effective date for Statement 157 for nonfinancial assets and nonfinancial liabilities until January 1, 2009. As such, CHS did not adopt Statement 157's fair value framework for nonfinancial assets and nonfinancial liabilities, except for items that are recognized or disclosed at fair value in the financial statements at least annually. Statement 157 establishes a three-level valuation hierarchy for disclosure of fair value measurements. The valuation hierarchy is based upon the transparency of inputs to the valuation of an asset or liability as of the measurement date. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities and the lowest priority to unobservable inputs. The three levels are defined as follows:

Level 1: Quoted market prices in active markets for identical assets or liabilities.

Level 2: Observable market based inputs or unobservable inputs that are corroborated by market data.

Level 3: Unobservable inputs that are not corroborated by market data.

A financial instrument's categorization within the valuation hierarchy is based upon the lowest level of input that is significant to the fair value measurement.

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

### Notes to Consolidated Financial Statements

#### Note 6. Fair Value Measurements (Continued)

The table below represents CHS's financial assets and liabilities measured at fair value on a recurring basis by level within the hierarchy as of June 30, 2009:

	Fair Value Measurements Using			
	Level 1	Level 2	Level 3	Total
Investments in securities:				
Equity securities	\$ 2,489,662	\$ -	\$ -	\$ 2,489,662
Corporate bonds	753,725	10,653	-	764,378
U.S. Government obligations	104,650	1,666,393	-	1,771,043
	<u>\$ 3,348,037</u>	<u>\$ 1,677,046</u>	<u>\$ -</u>	<u>\$ 5,025,083</u>
Liabilities:				
Interest rate swap obligation	\$ -	\$ 2,260,500	\$ -	\$ 2,260,500

CHS has determined the estimated fair value amounts presented in these accompanying consolidated financial statements using available market information and appropriate methodologies. However, considerable judgment is required in interpreting market data to develop the estimates of fair value. The estimates presented in these accompanying consolidated financial statements are not necessarily indicative of the amounts that could be realized in a current market exchange. The use of different market assumptions and/or estimation methodologies may have a material effect on the estimated fair value amounts. CHS bases these fair value estimates on pertinent information available to them as of the end of each reporting period or at the time such amounts are recorded.

#### Note 7. Accrued Expenses

Accrued expenses consisted of the following at June 30, 2009 and 2008:

	2009	2008
Accrued salaries and benefits	\$ 5,077,237	\$ 5,358,188
Accrued vacation	2,448,320	3,142,412
Fair value of interest rate swap	2,260,500	1,107,100
Other	569,231	335,225
	<u>\$ 10,355,288</u>	<u>\$ 9,942,925</u>

CHS has a workers' compensation indemnity policy, whereby, CHS is responsible for the first \$500,000 of bodily injury due by accident or disease and \$1,750,000 for all bodily injury in the aggregate during the policy year, ending June 30<sup>th</sup> of each year. Included in accrued salaries and benefits is a workers' compensation liability, which represents the estimated amount due for open claims and claims incurred but not reported, totaling \$938,487 and \$962,711 at June 30, 2009 and 2008, respectively.

The Children's Home Society of Florida and Subsidiaries

Notes to Consolidated Financial Statements

**Note 8. Long-Term Debt and Lines of Credit**

Long-term debt and lines of credit consisted of the following at June 30, 2009 and 2008:

	<u>2009</u>	<u>2008</u>
Bonds payable dated April 1, 2008 with an original principal balance of \$16,680,000. The bonds bear interest at a fixed interest rate of 4.39% and 3.20% (see swap agreement disclosure below) and have a maturity date of May 1, 2038. The bonds are redeemable by CHS in whole or in part, and call for quarterly partial redemption payments deposited into an escrow account. The bonds are collateralized by a letter of credit (see Note 9).	\$ 16,335,000	\$ 16,585,000
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.	1,825,362	1,845,227
Mortgage payable with an original balance of \$247,000 dated November 15, 2005, payable to a bank; fixed rate of interest at 6.5%. Principal and interest payments are due monthly and the mortgage matures in November 2035. The mortgage is collateralized by property in Callaway, Florida.	236,397	239,322
	<u>\$ 18,396,759</u>	<u>\$ 18,669,549</u>

Maturities of long-term debt as of June 30, 2009 are as follows:

Year Ending June 30,	Amount
2010	\$ 2,088,795
2011	278,666
2012	293,915
2013	304,181
2014	319,466
Thereafter	15,111,736
	<u>\$ 18,396,759</u>

Notes to Consolidated Financial Statements

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**Note 8. Long-Term Debt and Lines of Credit (Continued)**

Effective May 2002 and April 2008, CHS entered into two interest rate swap agreements with a notional amount that decreases every six months (\$8,790,000 and \$7,545,000, respectively, at June 30, 2009). Under the terms of the agreements, CHS owes interest calculated at a fixed interest rate of 4.39% and 3.20%, respectively, and receives interest calculated at a variable rate based on the one-month LIBOR interest rate (0.32% at June 30, 2009). The swap agreements terminate in May 2032 and May 2038, respectively. For the years ended June 30, 2009 and 2008, the interest rate swaps had a total negative fair value of \$2,260,500 and \$1,107,100 (see Note 9), respectively, resulting in a loss of \$1,153,400 and \$552,600, respectively, which is reflected in the accompanying consolidated statements of activities.

At June 30, 2009, CHS had two revolving lines of credit with a financial institution. Under the first line of credit, CHS can borrow up to \$4,000,000. Interest is based on the one-month LIBOR interest rate plus 0.75% (1.07% at June 30, 2009). This line of credit expires on July 31, 2010 and is collateralized by certain investments referred to in Note 4, which have a fair market value of approximately \$5,025,000 at June 30, 2009. On the second line of credit, CHS could borrow up to \$4,500,000. Interest is based on the one-month LIBOR interest rate plus 1.25% (1.57% at June 30, 2009). This line of credit is unsecured and expired on July 17, 2009. Both lines of credit had a zero balance as of June 30, 2009 and 2008.

Effective March 31, 2009, CHS entered into promissory note agreements with the City of Jacksonville and Florida Housing Finance Corporation to finance construction of transitional housing for youth aging out of foster care. The promissory note with the City of Jacksonville has a principal amount of \$741,365 and is non-interest bearing. The note matures the earlier of March 31, 2025, or fifteen years after the issuance of the certificate of occupancy. As described in the promissory note, if there is no uncured event of default upon the maturity date, then the outstanding balance will be forgiven and cancelled by the City of Jacksonville. At the time of debt forgiveness, CHS will recognize a gain in the statement of activities equal to the outstanding debt balance. The promissory note with Florida Housing Finance Corporation has a principal amount of \$249,000 and is non-interest bearing. The note matures on March 31, 2024. As of June 30, 2009, no amounts have been drawn on the construction loan or the promissory note.

**Note 9. Letter of Credit**

CHS entered into a letter of credit agreement for \$17,022,734 to support the \$16,680,000 bonds payable (see Note 8). The letter of credit, if drawn, bears interest at 15% per annum. As of June 30, 2009 and 2008, no amount has been drawn on the letter of credit. The letter of credit will automatically renew annually unless CHS is notified 90 days prior to expiration, which the earliest date would be March 31, 2011 or not extended beyond May 1, 2038.

Under the terms of the letter of credit, CHS is required to meet certain restrictive financial covenants. As of June 30, 2009, CHS was not in compliance with a certain covenant. CHS has received a waiver from the lender for the noncompliance.

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

### Notes to Consolidated Financial Statements

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#### Note 10. Commitments

Leases: CHS leases equipment under capital leases expiring at various dates through December 2012. The leased assets are included in the consolidated statements of financial position as part of property and equipment at a cost of \$927,700 and \$998,398 with accumulated amortization of \$619,724 and \$430,678 as of June 30, 2009 and 2008, respectively. Amortization of these assets held under capital leases is included with depreciation expense and was \$239,745 and \$245,004 for the years ended June 30, 2009 and 2008, respectively.

Certain premises used by operating divisions are occupied under operating leases, ranging up to seven years. Rent expense under all leases was approximately \$3,154,000 and \$3,640,400 for the years ended June 30, 2009 and 2008, 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, 2009 are as follows:

Year Ending June 30,	Capital Leases	Operating Leases
2010	\$ 247,738	\$ 2,041,880
2011	106,573	909,386
2012	33,117	577,073
2013	-	368,590
Total minimum lease payments	387,428	<u>\$ 3,896,929</u>
Less amounts representing interest, with annual interest rates ranging from 5.7% to 18.1%	(21,140)	
Present value of minimum capital lease payments	<u>\$ 366,288</u>	

Construction Contracts: As of June 30, 2009, CHS has commitments totaling approximately \$3,386,900 to construct a transitional housing for youth aging out of foster care and a youth transitional center. Total expenditures incurred are approximately \$1,757,200 through June 30, 2009.

#### Note 11. Retirement Plan

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

The Children's Home Society of Florida and Subsidiaries

Notes to Consolidated Financial Statements

**Note 11. 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, 2009, and a statement of the funded status as of June 30, 2009 and 2008:

Reconciliation of benefit obligation:

	2009	2008
Accumulated benefit obligation at end of year	<u>\$ 25,845,862</u>	<u>\$ 27,378,673</u>
Projected benefit obligation at beginning of year	\$ 27,378,673	\$ 26,008,828
Service cost	-	541,216
Interest cost	1,890,115	1,696,222
Actuarial (gain) loss	(1,344,680)	812,136
Benefit payments	(2,078,246)	(1,679,729)
<b>Projected benefit obligation at end of year</b>	<u><b>\$ 25,845,862</b></u>	<u><b>\$ 27,378,673</b></u>

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.

	2009	2008
Reconciliation of fair value of plan assets:		
Fair value of plan assets at beginning of year	\$ 19,229,381	\$ 21,233,614
Actual return on plan assets	(3,317,074)	(2,444,504)
Employer contributions	2,851,661	2,120,000
Benefit payments	(2,078,246)	(1,679,729)
<b>Fair value of plan assets at end of year</b>	<u><b>\$ 16,685,722</b></u>	<u><b>\$ 19,229,381</b></u>
Funded status at end of years	<u><b>\$ (9,160,140)</b></u>	<u><b>\$ (8,149,292)</b></u>

Amounts recognized in the consolidated statements of financial position consisted of the following as of June 30, 2009 and 2008:

	2009	2008
Intangible asset	\$ 32,741	\$ 42,818
Pension liability	(9,160,140)	(8,149,292)
<b>Net liability</b>	<u><b>\$ (9,127,399)</b></u>	<u><b>\$ (8,106,474)</b></u>

The Children's Home Society of Florida and Subsidiaries

Notes to Consolidated Financial Statements

Note 11. Retirement Plan (Continued)

CHS' pension plan weighted-average asset allocations at June 30, 2009 and 2008, by asset category are as follows:

	Target	Percentage of Plan	
	Allocation	Assets at June 30,	
	2010	2009	2008
Equity securities	55%	48%	60%
Debt securities	45%	52%	40%
	100%	100%	100%

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

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

The components of net periodic benefit cost for the Plan's fiscal years 2009 and 2008 are as follows:

	2009	2008
Interest cost	\$ 1,890,115	\$ 1,696,222
Expected return on plan assets	(1,576,812)	(1,748,213)
Service cost	-	541,216
Amortization of net loss	393,120	116,465
Amortization of prior service cost	10,079	10,079
Settlement expense	772,439	-
<b>Net periodic benefit cost</b>	<b>\$ 1,488,941</b>	<b>\$ 615,769</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, 2010 are \$2,200,000.

The Children's Home Society of Florida and Subsidiaries

Notes to Consolidated Financial Statements

**Note 11. Retirement Plan (Continued)**

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

Year Ending June 30,	Amount
2010	\$ 805,261
2011	1,114,942
2012	1,049,602
2013	1,832,262
2014	1,473,127
2015 – 2019	7,958,602

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

	2009	2008
Weighted-average assumptions as of June 30:		
Discount rate	6.95%	6.30%
Expected return on plan assets	8.00%	8.00%
Rate of compensation increase	4.25%	4.25%
	2009	2008
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, 2009	June 30, 2008

Additionally, CHS has a 403(b) thrift plan for eligible employees. Employees may make voluntary contributions up to the federal limits. CHS makes matching contributions equal to 100% of employee contributions up to 3% of included compensation. In addition, CHS makes an employer contribution to employees' accounts at 1% after 3 years of service, 2% after 5 years of service, 3% after 7 years of service and 4% after 9 years of service. Employer contributions vest at 100% after 3 years of service. As a result of the pension plan freeze (above), CHS increased contributions to the 403(b) plan in the current year. Employer contributions were approximately \$1,381,700 and \$1,142,700, respectively, for the years ended June 30, 2009 and 2008.

CHS also has a 457(b) 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 \$100,300 and \$114,000, respectively, for the years ended June 30, 2009 and 2008.

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

### Notes to Consolidated Financial Statements

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#### **Note 11. Retirement Plan (Continued)**

In October 2007, CHS adopted a 457(f) deferred compensation plan for eligible employees. Contributions to the plan may be made by employee deferrals, employer match, and/or discretionary employer contributions. The employer match and discretionary contribution vest immediately upon contribution. There were no employer contributions during the years ended June 30, 2009 and 2008.

#### **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. Beneficial Interest in the Net Assets of The Children's Home Society of Florida Foundation, Inc.**

At June 30, 2009 and 2008, CHS's beneficial interest in the net assets of the Foundation was \$11,692,706 and \$14,396,784, respectively, which is included in the consolidated statements of financial position. The temporarily restricted net assets change in beneficial interest in the net assets of the Foundation was \$(2,189,454) and \$(496,738), net of distributions of \$551,174 and \$428,086, for the years ended June 30, 2009 and 2008, respectively, which is included in the consolidated statements of activities. The permanently restricted net assets change in beneficial interest in the net assets of the Foundation was \$36,550 for the year ended June 30, 2009, which is included in the consolidated statements of activities. There was no permanently restricted net assets change in beneficial interest in the net assets of the Foundation for the year ended June 30, 2008.

#### **Note 14. Restatement**

During its year ended 2009, management determined that CHS' prior consolidated financial statements did not report its beneficial interest in the net assets of the Foundation. Accounting standards require an entity to recognize a beneficial interest in the net assets of another organization if a specified beneficiary (CHS) and recipient organization (Foundation) are financially interrelated organizations and the donors have not explicitly granted variance power to the recipient organization. Based on accounting standards criteria, management has determined that CHS and the Foundation are financially interrelated organizations because the Foundation's articles of incorporation state that it is organized exclusively for the benefit of CHS and CHS has an economic interest in the net assets of the Foundation. Furthermore, donors have not granted variance power over contributions given to the Foundation.

The cumulative effect of the adjustment on beginning net assets at July 1, 2007 was \$15,321,608. The effect on the decrease in net assets for the year ended June 30, 2008 was \$924,824.

The Children's Home Society of Florida and Subsidiaries

Notes to Consolidated Financial Statements

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**Note 14. Restatement (Continued)**

The statement of financial position for the year ended June 30, 2008 has been adjusted as follows:

	June 30, 2008	
	As Previously Reported	As Restated
Assets:		
Beneficial interest in the net assets of The Children's Home Society of Florida Foundation, Inc.	\$ -	\$ 14,396,784
Net Assets:		
Temporarily restricted net assets	605,609	7,441,951
Permanently restricted net assets	-	7,560,442

The statement of activities for the year ended June 30, 2008 has been adjusted as follows:

	June 30, 2008	
	As Previously Reported	As Restated
Changes in temporarily restricted net assets:		
Changes in beneficial interest in the net assets of The Children's Home Society of Florida Foundation, Inc.	\$ -	\$ (924,824)
Decrease in temporarily restricted net assets	(21,937)	(946,761)
Decrease in net assets	(2,423,229)	(3,348,053)