

The Children's Home Society of Florida and Subsidiaries

Consolidated Financial Report
June 30, 2011 and 2010

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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, 2011 and 2010, and the related consolidated statements of activities, functional expenses and cash flows for the years then ended. These consolidated financial statements are the responsibility of The Children's Home Society of Florida and Subsidiaries' management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audits 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, 2011 and 2010, and the changes in their net assets and their cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our reports dated October 28, 2011 and October 29, 2010 on our consideration of The Children's Home Society of Florida's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, and other matters. The purpose of these reports is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. These reports is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

McGladrey & Pullen, LLP

Orlando, Florida
October 28, 2011

The Children's Home Society of Florida and Subsidiaries

Consolidated Statements of Financial Position
June 30, 2011 and 2010

	2011	2010
Assets		
Cash and cash equivalents	\$ 10,228,642	\$ 13,280,580
Accounts receivable, net	13,332,565	12,357,774
Prepaid expenses and other assets	2,576,561	2,469,279
Investments	8,708,285	5,208,542
Restricted certificate of deposit	193,907	192,343
Beneficial interest in the net assets of The Children's Home Society of Florida Foundation, Inc.	16,852,661	13,130,360
Property and equipment, net	37,309,833	38,428,553
Total assets	\$ 89,202,454	\$ 85,067,431
Liabilities and Net Assets		
Liabilities:		
Accounts payable	\$ 2,782,830	\$ 2,173,287
Accrued expenses	10,689,264	11,045,452
Pension liability	7,537,084	11,221,679
Held in custody for account of others	420,830	518,983
Deferred revenue and other liabilities	765,922	1,605,566
Capital lease obligations	32,434	135,248
Long-term debt	16,789,610	17,230,014
Total liabilities	39,017,974	43,930,229
Commitments and Contingencies (Notes 9, 10 and 12)		
Net Assets:		
Unrestricted	32,734,025	27,404,079
Temporarily restricted	9,703,201	5,993,756
Permanently restricted	7,747,254	7,739,367
Total net assets	50,184,480	41,137,202
Total liabilities and net assets	\$ 89,202,454	\$ 85,067,431

See Notes to Consolidated Financial Statements.

The Children's Home Society of Florida and Subsidiaries

Consolidated Statements of Activities
Year Ended June 30, 2011

	2011			Total
	Unrestricted	Temporarily Restricted	Permanently Restricted	
Operating public support, revenues and other support:				
Operating public support:				
United Way	\$ 1,954,715	\$ -	\$ -	\$ 1,954,715
Bequests, contributions and special events	8,025,737	214,815	-	8,240,552
Total operating public support	9,980,452	214,815	-	10,195,267
Revenue from service contracts	99,538,259	-	-	99,538,259
Adoptive and other service fees	1,639,678	-	-	1,639,678
Investment income	215,525	-	-	215,525
Other revenue	818,860	-	-	818,860
Total operating public support and revenues	112,192,774	214,815	-	112,407,589
Net assets released from restrictions by satisfaction of program restrictions	42,884	(42,884)	-	-
Total operating public support, revenues and other support	112,235,658	171,931	-	112,407,589
Operating expenses:				
Program services	95,619,584	-	-	95,619,584
Supporting services:				
Management and general	12,515,070	-	-	12,515,070
Fundraising	3,447,033	-	-	3,447,033
Total supporting services	15,962,103	-	-	15,962,103
Total operating expenses	111,581,687	-	-	111,581,687
Increase in net assets from operations	653,971	171,931	-	825,902
Other changes:				
Change in beneficial interest in the net assets of The Children's Home Society of Florida Foundation, Inc.	-	3,537,514	7,887	3,545,401
Net realized and unrealized gains on investments	913,720	-	-	913,720
Unrealized gain on interest rate swap	576,181	-	-	576,181
Pension related changes other than net periodic benefit cost	3,186,074	-	-	3,186,074
Increase in other changes	4,675,975	3,537,514	7,887	8,221,376
Increase in net assets	5,329,946	3,709,445	7,887	9,047,278
Net assets:				
Beginning	27,404,079	5,993,756	7,739,367	41,137,202
Ending	\$ 32,734,025	\$ 9,703,201	\$ 7,747,254	\$ 50,184,480

(Continued)

The Children's Home Society of Florida and Subsidiaries

Consolidated Statements of Activities
Year Ended June 30, 2010

	2010			Total
	Unrestricted	Temporarily Restricted	Permanently Restricted	
Operating public support, revenues and other support:				
Operating public support:				
United Way	\$ 2,022,453	\$ -	\$ -	\$ 2,022,453
Bequests, contributions and special events	7,283,017	526,195	-	7,809,212
Total operating public support	9,305,470	526,195	-	9,831,665
Revenue from service contracts	93,030,880	-	-	93,030,880
Adoptive and other service fees	1,692,758	-	-	1,692,758
Investment income	181,044	-	-	181,044
Other revenue	831,809	-	-	831,809
Total operating public support and revenues	105,041,961	526,195	-	105,568,156
Net assets released from restrictions by satisfaction of program restrictions	1,201,209	(1,201,209)	-	-
Total operating public support, revenues and other support	106,243,170	(675,014)	-	105,568,156
Operating expenses:				
Program services	88,414,751	-	-	88,414,751
Supporting services:				
Management and general	12,157,576	-	-	12,157,576
Fundraising	4,013,755	-	-	4,013,755
Total supporting services	16,171,331	-	-	16,171,331
Total operating expenses	104,586,082	-	-	104,586,082
Increase (decrease) in net assets from operations	1,657,088	(675,014)	-	982,074
Other changes:				
Change in beneficial interest in the net assets of The Children's Home Society of Florida Foundation, Inc.	-	1,969,352	142,375	2,111,727
Net realized and unrealized gains on investments	256,195	-	-	256,195
Unrealized loss on interest rate swap	(756,755)	-	-	(756,755)
Pension related changes other than net periodic benefit cost	(2,536,688)	-	-	(2,536,688)
(Decrease) increase in other changes	(3,037,248)	1,969,352	142,375	(925,521)
(Decrease) increase in net assets	(1,380,160)	1,294,338	142,375	56,553
Net assets:				
Beginning	28,784,239	4,699,418	7,596,992	41,080,649
Ending	\$ 27,404,079	\$ 5,993,756	\$ 7,739,367	\$ 41,137,202

See Notes to Consolidated Financial Statements.

The Children's Home Society of Florida and Subsidiaries

Consolidated Statement of Functional Expenses
Year Ended June 30, 2011

	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	\$ 232,051	\$ 585,859	\$ 1,264,365	\$ 2,698,979	\$ 39,945	\$ 2,964,457	\$ 838,879
Employee benefits	32,684	89,064	231,140	450,819	6,125	581,922	142,802
Payroll taxes and other	22,440	56,933	121,696	258,408	3,890	281,680	80,596
Total salaries and related expenses	287,175	731,856	1,617,201	3,408,206	49,960	3,828,059	1,062,277
Professional fees	4,634	3,386	100,918	96,554	110	112,862	43,974
Supplies	2,504	6,983	26,208	25,260	273	61,290	8,058
Telephone	1,725	14,259	34,065	52,806	770	68,312	20,262
Postage and shipping	238	4,206	6,593	6,902	81	15,394	7,776
Occupancy	8,285	88,613	135,984	249,915	6,931	277,772	139,563
Rental and maintenance of equipment	796	22,223	32,590	39,502	270	78,212	9,992
Printing and publications	6,563	1,636	8,352	43,558	10	22,565	3,841
Travel	14,113	35,669	91,285	174,600	1,342	214,544	42,849
Conferences, conventions and meetings	36,007	1,363	9,067	2,965	7	9,688	548
Specific assistance to individuals	192	28,716	67,764	163,696	17	108,610	1,012,435
Membership dues	326	384	1,985	1,510	23	2,773	464
Interest	-	-	-	-	-	-	-
Insurance	914	7,352	14,459	38,012	385	39,180	10,136
Provision for bad debt	-	300	5,714	26,513	-	18	1,830
Contributed goods	-	19,201	140,183	101,257	550	300,432	-
Other	2,665	14,055	225,987	25,939	111	22,708	5,172
Total before depreciation and amortization	78,962	248,346	901,154	1,048,989	10,880	1,334,360	1,306,900
Depreciation and amortization	27,551	57,854	18,591	35,097	106	73,233	3,551
Total expenses	\$ 393,688	\$ 1,038,056	\$ 2,536,946	\$ 4,492,292	\$ 60,946	\$ 5,235,652	\$ 2,372,728

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, 2011

	Program Services						
	Daycare	Case Management/ Development Services	Case Management/ Mental Health	Home-Based Family Centered Casework	Homemaker	Intensive Family Preservation	Emergency Shelter/ Runaway
Salaries	\$ 957,732	\$ 16,058,213	\$ 11,466,310	\$ 497,603	\$ 596,990	\$ 3,367,316	\$ 1,656,321
Employee benefits	87,166	2,576,540	1,696,472	100,950	122,117	531,657	228,082
Payroll taxes and other	98,851	1,539,626	1,088,729	45,791	56,858	323,598	159,607
Total salaries and related expenses	1,143,749	20,174,379	14,251,511	644,344	775,965	4,222,571	2,044,010
Professional fees	3,996	549,386	151,776	2,117	9,855	55,318	12,935
Supplies	14,765	119,643	88,556	5,978	7,982	22,747	15,045
Telephone	14,908	401,869	260,535	13,519	24,648	83,551	40,455
Postage and shipping	1,395	34,470	18,706	509	824	4,438	2,428
Occupancy	154,456	794,088	1,273,623	51,363	85,619	385,157	172,669
Rental and maintenance of equipment	8,356	158,184	100,416	19,961	17,338	28,229	44,981
Printing and publications	6,716	12,556	19,515	1,587	1,736	9,527	2,583
Travel	15,551	1,514,323	805,129	18,709	39,705	318,180	100,741
Conferences, conventions and meetings	543	16,787	14,923	562	1,100	4,471	3,775
Specific assistance to individuals	109,367	1,267,281	520,740	14,845	7,423	130,979	158,909
Membership dues	944	11,826	13,177	2,243	428	1,453	9,978
Interest	-	-	-	-	-	-	-
Insurance	14,705	285,794	191,695	5,764	7,336	37,276	19,791
Provision for bad debt	664	954	18,768	3,536	185	-	324
Contributed goods	2,891	117,667	74,815	6,725	12,463	100,102	34,843
Other	489,472	168,728	57,565	13,266	6,699	22,654	15,772
Total before depreciation and amortization	838,729	5,453,556	3,609,939	160,684	223,341	1,204,082	635,229
Depreciation and amortization	22,588	60,422	68,739	9,428	3,596	26,786	69,196
Total expenses	\$ 2,005,066	\$ 25,688,357	\$ 17,930,189	\$ 814,456	\$ 1,002,902	\$ 5,453,439	\$ 2,748,435

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, 2011

	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	\$ 5,277,108	\$ 566,939	\$ 4,568,579	\$ 1,769,337	\$ 55,406,983	\$ 6,652,578	\$ 1,395,752	\$ 8,048,330	\$ 63,455,313
Employee benefits	716,285	115,551	565,606	278,288	8,553,270	675,949	197,749	873,698	9,426,968
Payroll taxes and other	502,058	52,807	434,225	163,480	5,291,273	600,275	134,705	734,980	6,026,253
Total salaries and related expenses	6,495,451	735,297	5,568,410	2,211,105	69,251,526	7,928,802	1,728,206	9,657,008	78,908,534
Professional fees	209,937	9,655	156,015	127,214	1,650,642	512,716	271,768	784,484	2,435,126
Supplies	53,085	11,094	35,779	35,742	540,992	52,002	27,380	79,382	620,374
Telephone	149,470	29,277	106,865	48,085	1,365,381	332,641	65,599	398,240	1,763,621
Postage and shipping	12,440	845	11,146	12,899	141,290	35,749	22,892	58,641	199,931
Occupancy	361,667	112,885	850,840	180,619	5,330,049	509,961	150,335	660,296	5,990,345
Rental and maintenance of equipment	181,897	26,861	135,650	44,965	950,423	43,400	24,256	67,656	1,018,079
Printing and publications	7,917	250	5,940	84,535	239,387	30,046	52,283	82,329	321,716
Travel	364,395	37,932	310,256	125,468	4,224,791	417,305	90,815	508,120	4,732,911
Conferences, conventions and meetings	17,217	222	5,666	29,430	154,341	42,603	24,757	67,360	221,701
Specific assistance to individuals	2,562,433	919	799,881	45,942	7,000,149	10,990	33,204	44,194	7,044,343
Membership dues	3,375	296	2,676	3,919	57,780	60,149	7,281	67,430	125,210
Interest	-	-	4,526	2	4,528	614,738	25,075	639,813	644,341
Insurance	80,911	7,358	55,272	12,777	829,117	42,210	9,462	51,672	880,789
Provision for bad debt	7,892	-	15,457	27	82,182	63,746	25,043	88,789	170,971
Contributed goods	50,258	10,107	158,444	202,593	1,332,531	19,802	223,765	243,567	1,576,098
Other	80,346	77,622	173,025	52,931	1,454,717	458,131	635,273	1,093,404	2,548,121
Total before depreciation and amortization	4,143,240	325,323	2,827,438	1,007,148	25,358,300	3,246,189	1,689,188	4,935,377	30,293,677
Depreciation and amortization	115,468	27,326	350,271	39,955	1,009,758	1,340,079	29,639	1,369,718	2,379,476
Total expenses	\$ 10,754,159	\$ 1,087,946	\$ 8,746,119	\$ 3,258,208	\$ 95,619,584	\$ 12,515,070	\$ 3,447,033	\$ 15,962,103	\$ 111,581,687

See Notes to Consolidated Financial Statements.

The Children's Home Society of Florida and Subsidiaries

Consolidated Statement of Functional Expenses
Year Ended June 30, 2010

	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	\$ 337,511	\$ 355,491	\$ 1,257,759	\$ 2,895,652	\$ 31,245	\$ 3,956,402	\$ 825,286
Employee benefits	48,849	58,227	200,391	440,682	6,480	713,255	129,243
Payroll taxes and other	36,203	37,426	131,055	299,061	3,166	410,472	84,546
Total salaries and related expenses	422,563	451,144	1,589,205	3,635,395	40,891	5,080,129	1,039,075
Professional fees	1,999	1,219	167,039	69,539	94	147,417	45,009
Supplies	1,793	3,411	19,577	35,969	257	61,547	9,958
Telephone	4,556	11,028	35,585	61,780	635	117,525	17,646
Postage and shipping	239	1,959	4,758	8,738	105	22,990	7,606
Occupancy	9,143	61,909	116,074	269,749	5,181	397,999	128,083
Rental and maintenance of equipment	2,639	20,595	21,010	47,222	203	58,971	9,709
Printing and publications	500	366	5,257	38,403	3	22,427	4,161
Travel	29,471	31,481	83,120	241,389	1,521	303,267	38,591
Conferences, conventions and meetings	3,790	127	9,703	5,665	9	7,727	616
Specific assistance to individuals	26	9,129	64,151	238,850	2	63,921	896,662
Membership dues	7	30	545	1,338	23	2,234	186
Interest	21	92	45	211	-	1,349	-
Insurance	1,646	3,481	11,738	43,411	304	42,445	7,945
Provision for bad debt	-	-	-	-	-	-	-
Contributed goods	-	7,717	173,910	104,849	600	322,368	-
Other	7,395	18,847	73,425	92,779	535	71,360	16,425
Total before depreciation and amortization	63,225	171,391	785,937	1,259,892	9,472	1,643,547	1,182,597
Depreciation and amortization	37,784	18,932	13,787	47,961	294	85,752	3,475
Total expenses	\$ 523,572	\$ 641,467	\$ 2,388,929	\$ 4,943,248	\$ 50,657	\$ 6,809,428	\$ 2,225,147

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, 2010

	Program Services						
	Daycare	Case Management/ Development Services	Case Management/ Mental Health	Home-Based Family Centered Casework	Homemaker	Intensive Family Preservation	Emergency Shelter/ Runaway
Salaries	\$ 1,082,633	\$ 15,524,873	\$ 9,283,277	\$ 463,090	\$ 642,030	\$ 3,322,644	\$ 1,731,186
Employee benefits	84,981	2,308,889	1,298,553	76,152	129,317	502,872	238,606
Payroll taxes and other	100,383	1,607,891	962,186	48,148	65,360	337,018	181,484
Total salaries and related expenses	1,267,997	19,441,653	11,544,016	587,390	836,707	4,162,534	2,151,276
Professional fees	15,210	183,625	312,395	1,779	2,063	42,792	16,516
Supplies	17,838	111,421	94,114	4,185	7,272	19,870	15,236
Telephone	21,650	368,502	188,794	14,054	20,885	78,460	53,315
Postage and shipping	2,066	44,870	16,428	1,296	1,218	5,428	2,110
Occupancy	255,720	818,140	1,045,732	45,251	98,903	376,174	254,712
Rental and maintenance of equipment	22,119	176,860	107,730	10,895	8,554	44,682	51,628
Printing and publications	1,521	8,152	18,526	726	1,170	5,918	3,794
Travel	21,243	1,483,793	705,184	16,441	54,833	313,235	110,503
Conferences, conventions and meetings	1,155	18,976	22,399	1,339	629	6,103	9,798
Specific assistance to individuals	113,991	1,237,714	565,296	21,710	3,802	118,792	168,338
Membership dues	69	11,914	6,215	8,676	17	317	11,627
Interest	1,873	2	5	-	-	5	16,389
Insurance	8,928	269,680	145,822	4,420	6,655	32,546	21,780
Provision for bad debt	-	-	-	-	-	-	-
Contributed goods	700	10,113	43,694	4,929	14,285	114,652	47,762
Other	362,366	284,805	181,883	7,858	10,931	57,157	39,814
Total before depreciation and amortization	846,449	5,028,567	3,454,217	143,559	231,217	1,216,131	823,322
Depreciation and amortization	34,429	110,222	42,544	9,545	2,983	26,538	92,223
Total expenses	\$ 2,148,875	\$ 24,580,442	\$ 15,040,777	\$ 740,494	\$ 1,070,907	\$ 5,405,203	\$ 3,066,821

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, 2010

	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	\$ 3,927,972	\$ 554,922	\$ 4,101,506	\$ 1,009,611	\$ 51,303,090	\$ 6,791,122	\$ 1,595,670	\$ 8,386,792	\$ 59,689,882
Employee benefits	567,473	97,581	499,545	132,933	7,534,029	269,270	199,677	468,947	8,002,976
Payroll taxes and other	412,140	56,489	433,019	106,010	5,312,057	687,223	168,466	855,689	6,167,746
Total salaries and related expenses	4,907,585	708,992	5,034,070	1,248,554	64,149,176	7,747,615	1,963,813	9,711,428	73,860,604
Professional fees	284,260	8,473	153,469	175,419	1,628,317	472,645	281,803	754,448	2,382,765
Supplies	39,539	7,972	30,629	17,748	498,336	57,389	42,249	99,638	597,974
Telephone	82,641	24,088	106,987	25,854	1,233,985	328,690	52,449	381,139	1,615,124
Postage and shipping	10,659	1,007	10,167	12,988	154,632	35,909	25,455	61,364	215,996
Occupancy	320,454	91,910	838,470	77,616	5,211,220	644,484	138,942	783,426	5,994,646
Rental and maintenance of equipment	89,085	18,224	154,104	44,227	888,457	(142,226)	33,878	(108,348)	780,109
Printing and publications	10,650	2,384	6,493	113,697	244,148	44,648	87,300	131,948	376,096
Travel	307,515	34,394	247,265	46,739	4,069,985	416,552	78,605	495,157	4,565,142
Conferences, conventions and meetings	16,516	157	40,235	17,118	162,062	24,728	26,756	51,484	213,546
Specific assistance to individuals	1,346,473	5,750	735,799	11,713	5,602,119	7,650	33,798	41,448	5,643,567
Membership dues	421	234	1,338	4,171	49,362	54,696	6,923	61,619	110,981
Interest	2,686	-	31,814	71	54,563	604,876	37,145	642,021	696,584
Insurance	60,509	6,492	48,496	6,634	722,932	40,028	9,553	49,581	772,513
Provision for bad debt	-	-	-	-	-	(2,025)	-	(2,025)	(2,025)
Contributed goods	80,299	22,005	185,761	1,846	1,135,490	351,500	503,822	855,322	1,990,812
Other	103,442	36,229	207,857	65,323	1,638,431	108,013	652,474	760,487	2,398,918
Total before depreciation and amortization	2,755,149	259,319	2,798,884	621,164	23,294,039	3,047,557	2,011,152	5,058,709	28,352,748
Depreciation and amortization	75,715	26,044	325,046	18,262	971,536	1,362,404	38,790	1,401,194	2,372,730
Total expenses	\$ 7,738,449	\$ 994,355	\$ 8,158,000	\$ 1,887,980	\$ 88,414,751	\$ 12,157,576	\$ 4,013,755	\$ 16,171,331	\$ 104,586,082

See Notes to Consolidated Financial Statements.

The Children's Home Society of Florida and Subsidiaries

Consolidated Statements of Cash Flows
Years Ended June 30, 2011 and 2010

	2011	2010
Cash Flows From Operating Activities		
Increase in net assets	\$ 9,047,278	\$ 56,553
Adjustments to reconcile increase in net assets to net cash provided by operating activities:		
Depreciation and amortization of property and equipment	2,369,550	2,360,304
Amortization – other	9,926	12,426
Net realized and unrealized gains on investments	(913,720)	(256,195)
Change in unrealized (gain) loss on interest rate swap	(576,181)	756,755
Change in beneficial interest in the net assets of The Children's Home Society of Florida Foundation, Inc.	(3,722,301)	(1,437,654)
Pension related changes other than net periodic benefit cost	(3,186,074)	2,536,688
Contribution of property and equipment	(4,600)	(35,154)
Loss on sale/disposal of property and equipment	648,635	31,040
Provision for doubtful accounts	170,971	(2,025)
Changes in operating assets and liabilities:		
Accounts receivable	(1,145,762)	(539,785)
Prepaid expenses and other assets	(117,208)	245,494
Accounts payable	609,543	496,112
Accrued expense	219,993	(66,591)
Deferred revenue and other liabilities	(839,644)	522,453
Pension liability	(498,521)	(475,149)
Net cash provided by operating activities	2,071,885	4,205,272
Cash Flows From Investing Activities		
(Increase) decrease in restricted cash and certificate of deposit	(1,564)	1,944,594
Purchases of property and equipment	(2,180,603)	(3,941,414)
Proceeds from sale of property and equipment	187,585	75,000
Proceeds from sale of investments	1,071,548	676,254
Purchases of investments	(3,657,571)	(603,518)
Net cash used in investing activities	(4,580,605)	(1,849,084)
Cash Flows From Financing Activities		
Principal payments on capital lease obligations	(102,814)	(231,040)
Proceeds from long-term debt	67,560	922,050
Principal payments on long-term debt	(507,964)	(2,088,795)
Net cash used in financing activities	(543,218)	(1,397,785)
Net (decrease) increase in cash and cash equivalents	(3,051,938)	958,403
Cash and cash equivalents:		
Beginning	13,280,580	12,322,177
Ending	\$ 10,228,642	\$ 13,280,580

(Continued)

The Children's Home Society of Florida and Subsidiaries

Consolidated Statements of Cash Flows (Continued)

Years Ended June 30, 2011 and 2010

	2011	2010
Supplemental Disclosures of Cash Flow Information		
Cash paid during the year for interest, net of \$59,698 capitalized interest for the year ended June 30, 2010	\$ 644,938	\$ 698,006

See Notes to Consolidated Financial Statements.

The Children's Home Society of Florida and Subsidiaries

Notes to Consolidated Financial Statements

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 its wholly-owned subsidiaries. CHS' wholly-owned subsidiaries are as follows:

- Centennial Holdings, LLC
- Centennial Holdings – Treasure Coast, LLC
- Centennial Holdings North Central, LLC
- ECIL Capital, LLC
- Centennial Holdings Southwest, LLC
- Centennial Holdings Collier Childcare, LLC
- Children's Home Society Early Learning Initiatives, LLC

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.

A not-for-profit organization 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.

Consolidated statement of activities: CHS has an intermediate measure of operating results that classifies certain activities not included in operations as other changes. Other changes include: change in beneficial interest in the net assets of The Children's Home Society of Florida Foundation, Inc., net realized and unrealized gains on investments, unrealized gain (loss) on interest rate swap and pension related changes other than net periodic benefit cost.

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. CHS maintains cash and cash equivalents with various major financial institutions, which are insured by the Federal Deposit Insurance Corporation (FDIC). From time to time, balances may exceed amounts insured by the FDIC.

Restricted certificate of deposit: Restricted certificate of deposit held by CHS is restricted to specific programs and bond proceeds received for the construction of facilities and is carried at amortized cost.

The Children's Home Society of Florida and Subsidiaries

Notes to Consolidated Financial Statements

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

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 of accounting 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 of accounting over the term of the lease, or the useful life of the improvement, whichever is shorter.

Assets held under capital leases are initially 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 of accounting 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, 2011 and 2010.

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 statements 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.

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.

The Children's Home Society of Florida and Subsidiaries

Notes to Consolidated Financial Statements

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

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, unit of service or cost reimbursement contracts. Revenue from fixed fee and unit of service contracts are recognized when services are provided. Revenue from cost reimbursement contracts are recognized when eligible costs are incurred.

Adoptive and other service fees: Revenue from adoptive and other service fees are recognized when services are provided.

Contributed services and goods: Contributed services are reported at fair value in the consolidated financial statements for voluntary donations of services 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 \$164,400 and \$148,700 for the years ended June 30, 2011 and 2010, respectively, which is included in bequests, contributions and special events in the accompanying consolidated statements of activities.

Contributed goods are reported at fair value in the consolidated financial statements in the period received. Contributed goods recognized in the consolidated statements of activities were approximately \$1,576,000 and \$1,991,000 for the years ended June 30, 2011 and 2010, 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 (see Note 6), which is included as a component of accrued expenses. CHS has two interest rate swap agreements in place at June 30, 2011 and 2010. 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.

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

The Children's Home Society of Florida and Subsidiaries

Notes to Consolidated Financial Statements

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

In addition, management assessed whether there were any uncertain tax positions which may give rise to income tax liabilities and determined that there were no such matters requiring recognition in the accompanying consolidated financial statements. CHS files tax returns in the U.S. federal jurisdiction. Generally, CHS is no longer subject to U.S. federal income tax examinations by taxing authorities for years before June 30, 2008.

Reclassifications: Certain amounts in the 2010 consolidated financial statements have been reclassified in order to conform with the 2011 presentation. These reclassifications had no impact on total assets, total liabilities, or net assets.

Fair value of financial instruments: At June 30, 2011 and 2010, CHS' financial instruments consist of cash and cash equivalents, accounts receivable, investments, restricted certificate of deposit, 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' interest rate swap contracts (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 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, 2011 and 2010.

Recent accounting pronouncements: The Financial Accounting Standards Board and other entities issued new or modifications to, or interpretations of, existing accounting guidance during fiscal year 2011. CHS has considered the new pronouncements that altered accounting principles generally accepted in the United States of America, 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 October 28, 2011, the date the consolidated financial statements were available to be issued.

Note 2. Temporarily and Permanently Restricted Net Assets

Temporarily restricted net assets as of June 30, 2011 and 2010, are available for the following purposes:

	<u>2011</u>	<u>2010</u>
Beneficial interest in the net assets of The Children's Home Society of Florida Foundation, Inc.	\$ 9,105,407	\$ 5,390,993
Henry Training Fund	304,643	305,212
Children's Emergency Medical Services	232,577	233,012
Joshua House	60,574	60,688
President's Scholarship Fund	-	3,851
	<u>\$ 9,703,201</u>	<u>\$ 5,993,756</u>

The Children's Home Society of Florida and Subsidiaries

Notes to Consolidated Financial Statements

Note 2. Temporarily and Permanently Restricted Net Assets (Continued)

As of June 30, 2011 and 2010, net assets of \$42,884 and \$1,201,209, 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 \$7,747,254 and \$7,739,367 at June 30, 2011 and 2010, respectively, represents the beneficial interest in the net assets of The Children's Home Society of Florida Foundation, Inc. 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, 2011 and 2010:

	<u>2011</u>	<u>2010</u>
Community based care	\$ 8,052,599	\$ 7,448,963
Government contracts	3,128,840	2,184,001
Pledges	846,330	937,628
Medicaid	613,469	557,143
Other	1,036,019	1,564,529
Adoptive fees	39,763	48,895
	<u>13,717,020</u>	<u>12,741,159</u>
Less allowance for doubtful accounts	(375,480)	(356,145)
Less discount for time-value of money	(8,975)	(27,240)
	<u>\$ 13,332,565</u>	<u>\$ 12,357,774</u>

Pledges that are included above and are considered unconditional promises to give at June 30, 2011 and 2010 are summarized as follows:

	<u>2011</u>	<u>2010</u>
Amounts due:		
Within one year	\$ 665,846	\$ 426,895
One to five years	176,284	507,133
More than five years	4,200	3,600
	<u>846,330</u>	<u>937,628</u>
Less allowance for doubtful accounts	(76,134)	(84,386)
Less discount for time-value of money	(8,975)	(27,240)
	<u>\$ 761,221</u>	<u>\$ 826,002</u>

The Children's Home Society of Florida and Subsidiaries

Notes to Consolidated Financial Statements

Note 4. Investments

The fair value of investments at June 30, 2011 and 2010 consists of the following:

	<u>2011</u>	<u>2010</u>
Equity securities:		
Common stocks:		
S&P 500 stocks	\$ 4,355,709	\$ 2,318,456
Foreign stocks	656,756	332,156
Mutual funds:		
Aggressive Allocation fund	455,163	322,098
Large Blend fund	46,853	37,415
Moderated Allocation fund	31,626	47,456
Conservative Allocation fund	23,193	14,092
Debt securities:		
Corporate bonds	1,854,478	966,965
U.S. Government obligations	1,284,507	1,169,904
	<u>\$ 8,708,285</u>	<u>\$ 5,208,542</u>

CHS invests in various investment securities in accordance with its investment policy. These investment securities are exposed to various risks such as interest rate, market and credit risk. Due to the level of risk associated with certain investment securities and the uncertainty related to changes in their values, it is reasonable to expect that changes in the values of investment securities will occur in the near term and that such changes could materially affect the investment balance. Based on CHS' investment policy, there are no significant risk concentrations in its portfolio of common stocks, mutual funds and corporate bonds.

Note 5. Property and Equipment

Property and equipment consisted of the following at June 30, 2011 and 2010:

	<u>2011</u>	<u>2010</u>
Land	\$ 5,011,252	\$ 5,235,302
Buildings and improvements	36,702,063	36,965,837
Furniture and equipment	19,920,042	18,947,895
Leasehold improvements	1,329,990	1,075,875
Construction in progress	40,777	20,548
	<u>63,004,124</u>	<u>62,245,457</u>
Less accumulated depreciation	<u>(25,694,291)</u>	<u>(23,816,904)</u>
	<u>\$ 37,309,833</u>	<u>\$ 38,428,553</u>

Depreciation and amortization expense of property and equipment for the years ended June 30, 2011 and 2010, was approximately \$2,370,000 and \$2,360,000, respectively.

The Children's Home Society of Florida and Subsidiaries

Notes to Consolidated Financial Statements

Note 6. Fair Value Measurements

CHS follows accounting standards relating to fair value measurements which defines fair value, establishes a framework for measuring fair value in accordance with generally accepted accounting principles, and expands disclosures about fair value measurements. The accounting standards relating to fair value measurements 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, 2011 and 2010:

	2011			
	Fair Value Measurements Using			
	Level 1	Level 2	Level 3	Total
Investments in securities:				
Equity securities:				
Common stocks:				
S&P 500 stocks	\$ 4,355,709	\$ -	\$ -	\$ 4,355,709
Foreign stocks	656,756	-	-	656,756
Mutual funds:				
Aggressive Allocation fund	455,163	-	-	455,163
Large Blend fund	46,853	-	-	46,853
Moderated Allocation fund	31,626	-	-	31,626
Conservative Allocation fund	23,193	-	-	23,193
Debt securities:				
Corporate bonds	1,739,850	114,628	-	1,854,478
U.S. Government obligations	1,084,028	200,479	-	1,284,507
	\$ 8,393,178	\$ 315,107	\$ -	\$ 8,708,285
Liabilities:				
Interest rate swap obligation	\$ -	\$ 2,441,074	\$ -	\$ 2,441,074
	2010			
	Fair Value Measurements Using			
	Level 1	Level 2	Level 3	Total
Investments in securities:				
Equity securities:				
Common stocks:				
S&P 500 stocks	\$ 2,318,456	\$ -	\$ -	\$ 2,318,456
Foreign stocks	332,156	-	-	332,156
Mutual funds:				
Aggressive Allocation fund	322,098	-	-	322,098
Large Blend fund	37,415	-	-	37,415
Moderated Allocation fund	47,456	-	-	47,456
Conservative Allocation fund	14,092	-	-	14,092
Debt securities:				
Corporate bonds	961,077	5,888	-	966,965
U.S. Government obligations	109,372	1,060,532	-	1,169,904
	\$ 4,142,122	\$ 1,066,420	\$ -	\$ 5,208,542
Liabilities:				
Interest rate swap obligation	\$ -	\$ 3,017,255	\$ -	\$ 3,017,255

The Children's Home Society of Florida and Subsidiaries

Notes to Consolidated Financial Statements

Note 6. Fair Value Measurements (Continued)

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.

The fair value of CHS' interest rate swap contracts (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 swap contracts carried at fair value are classified as Level 2 as their market value is based on observable market based inputs or unobservable inputs that are corroborated by market data. In determining the appropriate levels, CHS performs an analysis of the liabilities that are subject to fair value measurements.

Note 7. Accrued Expenses

Accrued expenses consisted of the following at June 30, 2011 and 2010:

	<u>2011</u>	<u>2010</u>
Accrued salaries and benefits	\$ 6,055,282	\$ 5,787,782
Accrued vacation	2,040,879	2,010,867
Fair value of interest rate swap	2,441,074	3,017,255
Other	152,029	229,548
	<u>\$ 10,689,264</u>	<u>\$ 11,045,452</u>

CHS has a workers' compensation indemnity policy, whereby, CHS is responsible for the first \$300,000 of bodily injury due by accident or disease and \$1,000,000 for all bodily injury in the aggregate during the policy year, ending June 30th 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 \$958,139 and \$1,126,510 at June 30, 2011 and 2010, respectively.

The Children's Home Society of Florida and Subsidiaries

Notes to Consolidated Financial Statements

Note 8. Long-Term Debt and Line of Credit

Long-term debt and line of credit consisted of the following at June 30, 2011 and 2010:

	<u>2011</u>	<u>2010</u>
Bonds payable dated April 1, 2008, with an original principal balance of \$16,680,000. The bonds bear interest at a variable interest rate based on the one-month LIBOR interest rate (.19% at June 30, 2011). However, CHS entered into two interest rate swap agreements that fixed the interest rate at 4.39% and 3.20% (see swap agreement disclosure below). The bonds mature on 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).	\$ 15,800,000	\$ 16,075,000
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 were due monthly. The mortgage was collateralized by property in Callaway, Florida. The mortgage was paid off in October 2010.	-	232,964
Note payable to the City of Jacksonville, Florida, to finance construction of transitional housing for youths aging out of foster care. The note is non-interest bearing and matures in March 2025. As described in the note agreement, 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 consolidated statements of activities equal to the outstanding debt balance. The note is collateralized by property in Jacksonville, Florida.	740,822	740,822
Note payable to the Florida Housing Finance Corporation to finance construction of transitional housing for youths aging out of foster care. The note is non-interest bearing and matures in March 2024, at which time, the entire unpaid principal is due and payable. The note is collateralized by property in Jacksonville, Florida.	248,788	181,228
	<u>\$ 16,789,610</u>	<u>\$ 17,230,014</u>

The Children's Home Society of Florida and Subsidiaries

Notes to Consolidated Financial Statements

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

Maturities of long-term debt as of June 30, 2011 are as follows:

Year Ending June 30,	Amount
2012	\$ 290,000
2013	300,000
2014	315,000
2015	335,000
2016	350,000
Thereafter	15,199,610
	<u>\$ 16,789,610</u>

Effective October 2005 and April 2008, CHS entered into two interest rate swap agreements with a notional amount that decreases every six months (\$8,365,000 and \$7,435,000, respectively, at June 30, 2011). 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 (.19% at June 30, 2011). The swap agreements terminate in May 2032 and May 2038, respectively. For the years ended June 30, 2011 and 2010, the interest rate swaps had a total negative fair value of \$2,441,074 and \$3,017,255 (see Note 7), respectively, resulting in a gain (loss) of \$576,181 and (\$756,755), respectively, which is reflected in the accompanying consolidated statements of activities.

At June 30, 2011, CHS has a \$4,000,000 revolving line of credit with a financial institution. Interest is based on the one-month LIBOR interest rate plus 0.75% (.94% at June 30, 2011), paid monthly. The line of credit is due on demand and is collateralized by certain investments referred to in Note 4, which have a fair market value of approximately \$8,708,000 at June 30, 2011. There was no outstanding balance on the line of credit at June 30, 2011 and 2010.

Note 9. Letter of Credit

CHS entered into a letter of credit agreement for \$17,022,740 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, 2011 and 2010, no amount has been drawn on the letter of credit. The letter of credit expires on March 31, 2014.

Note 10. Commitments

Leases: CHS leases equipment under capital leases expiring at various dates through July 2012. The leased assets are included in the consolidated statements of financial position as part of property and equipment at a cost of \$867,208 and \$889,627 with accumulated amortization of \$826,071 and \$796,577 as of June 30, 2011 and 2010, respectively. Amortization of these assets held under capital leases is included with depreciation expense and was \$65,776 and \$213,656 for the years ended June 30, 2011 and 2010, respectively.

Certain premises used by operating divisions are occupied under operating leases, ranging up to seven years. Rent expense under all leases was approximately \$3,185,000 and \$3,277,000 for the years ended June 30, 2011 and 2010, respectively.

The Children's Home Society of Florida and Subsidiaries

Notes to Consolidated Financial Statements

Note 10. Commitments (Continued)

Future minimum lease payments under capital and operating leases together with the present value of the net minimum lease payments as of June 30, 2011 are as follows:

Year Ending June 30,	Capital Leases	Operating Leases
2012	\$ 32,866	\$ 2,664,733
2013	692	2,292,105
2014	-	2,158,542
2015	-	1,993,220
2016	-	977,618
Thereafter	-	803,063
Total minimum lease payments	33,558	\$ 10,889,281
Less amounts representing interest, with annual interest rates ranging from 8.35% to 8.83%	(1,124)	
Present value of minimum capital lease payments	\$ 32,434	

Note 11. Retirement Plans

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.

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 accrued any further benefits after such date.

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, 2011, and a statement of the funded status as of June 30, 2011 and 2010:

Reconciliation of benefit obligation:

	2011	2010
Accumulated benefit obligation at end of year	\$ 32,169,369	\$ 31,359,360
Projected benefit obligation at beginning of year	\$ 31,359,360	\$ 25,845,862
Interest cost	1,566,027	1,591,544
Actuarial loss (gain)	64,200	4,584,431
Benefit payments	(820,218)	(662,477)
Projected benefit obligation at end of year	\$ 32,169,369	\$ 31,359,360

The Children's Home Society of Florida and Subsidiaries

Notes to Consolidated Financial Statements

Note 11. Retirement Plans (Continued)

	<u>2011</u>	<u>2010</u>
Reconciliation of fair value of plan assets:		
Fair value of plan assets at beginning of year	\$ 20,137,681	\$ 16,685,722
Actual return on plan assets	3,701,521	2,407,354
Employer contributions	1,613,301	1,707,082
Benefit payments	(820,218)	(662,477)
Fair value of plan assets at end of year	\$ 24,632,285	\$ 20,137,681
Funded status at end of year	\$ (7,537,084)	\$ (11,221,679)

Amounts recognized in the consolidated statements of financial position consisted of the following as of June 30, 2011 and 2010:

	<u>2011</u>	<u>2010</u>
Intangible asset	\$ 12,589	\$ 22,665
Pension liability	(7,537,084)	(11,221,679)
Net liability	\$ (7,524,495)	\$ (11,199,014)

Pension related changes other than net periodic benefit cost for the years ended June 30, 2011 and 2010 are as follows:

	<u>2011</u>	<u>2010</u>
Net actuarial (gain) loss	\$ (2,005,923)	\$ 3,497,451
Amortization of actuarial loss	(1,180,151)	(928,032)
Amortization of prior service cost	-	(32,731)
Pension related changes other than net periodic benefit cost	\$ (3,186,074)	\$ 2,536,688

The Children's Home Society of Florida and Subsidiaries

Notes to Consolidated Financial Statements

Note 11. Retirement Plans (Continued)

The table below represents CHS' pension plan assets measured at fair value by level within the hierarchy (see Note 6) as of June 30, 2011 and 2010:

	2011			
	Fair Value Measurements Using			
	Level 1	Level 2	Level 3	Total
Equity securities:				
Common stocks:				
S&P 500 stocks	\$ 8,915,660	\$ -	\$ -	\$ 8,915,660
Foreign stocks	3,661,823	-	-	3,661,823
S&P Midcap 400 stocks	1,740,598	-	-	1,740,598
Debt securities:				
Money market fund	1,988,767	-	-	1,988,767
Corporate and foreign bonds	-	6,762,483	-	6,762,483
Municipal obligations	-	1,094,480	-	1,094,480
U.S. treasury obligations	468,474	-	-	468,474
	\$ 16,775,322	\$ 7,856,963	\$ -	\$ 24,632,285
	2010			
	Fair Value Measurements Using			
	Level 1	Level 2	Level 3	Total
Equity securities:				
Common stocks:				
S&P 500 stocks	\$ 7,037,496	\$ -	\$ -	\$ 7,037,496
Foreign stocks	2,069,114	-	-	2,069,114
S&P Midcap 400 stocks	1,760,210	-	-	1,760,210
Debt securities:				
Money market fund	1,391,989	-	-	1,391,989
Corporate and foreign bonds	-	6,871,599	-	6,871,599
Municipal obligations	-	539,657	-	539,657
U.S. treasury obligations	467,616	-	-	467,616
	\$ 12,726,425	\$ 7,411,256	\$ -	\$ 20,137,681

CHS' pension plan weighted-average asset allocations at June 30, 2011 and 2010, by asset category are as follows:

	Target Allocation	Percentage of Plan Assets at June 30,	
	2012	2011	2010
Equity securities	55%	58%	55%
Debt securities	45%	42%	45%
	100%	100%	100%

The Children's Home Society of Florida and Subsidiaries

Notes to Consolidated Financial Statements

Note 11. Retirement Plans (Continued)

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's 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 2011 and 2010 are as follows:

	<u>2011</u>	<u>2010</u>
Interest cost	\$ 1,566,027	\$ 1,591,544
Expected return on plan assets	(1,631,398)	(1,320,374)
Amortization of actuarial loss	1,180,151	928,032
Amortization of prior service cost	-	32,731
Net periodic benefit cost	<u>\$ 1,114,780</u>	<u>\$ 1,231,933</u>

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, 2012 are \$2,150,000.

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

Year Ending June 30,	Amount
2012	\$ 1,271,128
2013	2,249,945
2014	1,585,837
2015	1,236,311
2016	1,777,926
2017– 2021	10,741,082

The Children's Home Society of Florida and Subsidiaries

Notes to Consolidated Financial Statements

Note 11. Retirement Plans (Continued)

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

	<u>2011</u>	<u>2010</u>
Weighted-average assumptions as of June 30:		
Discount rate	5.35%	5.25%
Expected return on plan assets	8.00%	8.00%
Rate of compensation increase	4.25%	4.25%
	<u>2011</u>	<u>2010</u>
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, 2011	June 30, 2010

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. Employer contributions were approximately \$1,466,600 and \$1,425,900, respectively, for the years ended June 30, 2011 and 2010.

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 \$70,200 and \$107,000, respectively, for the years ended June 30, 2011 and 2010.

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, 2011 and 2010.

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

The Children's Home Society of Florida and Subsidiaries

Notes to Consolidated Financial Statements

Note 13. Beneficial Interest in the Net Assets of The Children's Home Society of Florida Foundation, Inc.

At June 30, 2011 and 2010, CHS's beneficial interest in the net assets of the Foundation was \$16,852,661 and \$13,130,360, 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 \$3,537,514 and \$1,969,352, net of (contributions to the Foundation) distributions to CHS of (\$176,900) and \$674,073, for the years ended June 30, 2011 and 2010, respectively, which is included in the accompanying consolidated statements of activities. The permanently restricted net assets change in beneficial interest in the net assets of the Foundation was \$7,887 and \$142,375 for the years ended June 30, 2011 and 2010, respectively, which is included in the accompanying consolidated statements of activities.



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

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

We have audited the consolidated financial statements of The Children's Home Society of Florida as of and for the year ended June 30, 2011, and have issued our report thereon dated October 28, 2011. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

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

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis.

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

Compliance and Other Matters

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

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

McGladrey & Pullen, LLP

Orlando, Florida
October 28, 2011