

# The Children's Home Society of Florida and Subsidiaries

Consolidated Financial Report  
June 30, 2012 and 2011

## Contents

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Independent Auditor's Report on the Financial Statements	1
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Financial Statements	
Consolidated statements of financial position	2
Consolidated statements of activities	3 – 4
Consolidated statements of functional expenses	5 – 10
Consolidated statements of cash flows	11
Notes to consolidated financial statements	12 – 28

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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 <i>Government Auditing Standards</i>	29 – 30
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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, 2012 and 2011, 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, 2012 and 2011, 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 30, 2012 and October 28, 2011 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 are an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audits.

*McGladrey LLP*

Orlando, Florida  
October 30, 2012

The Children's Home Society of Florida and Subsidiaries

Consolidated Statements of Financial Position  
June 30, 2012 and 2011

	2012	2011
<b>Assets</b>		
Cash and cash equivalents	\$ 7,337,375	\$ 10,228,642
Accounts receivable, net	15,362,773	13,332,565
Prepaid expenses and other assets	2,430,368	2,576,561
Investments	9,097,525	8,708,285
Restricted certificate of deposit	194,034	193,907
Beneficial interest in the net assets of The Children's Home Society of Florida Foundation, Inc.	16,410,966	16,852,661
Property and equipment, net	35,764,258	37,309,833
<b>Total assets</b>	<b>\$ 86,597,299</b>	<b>\$ 89,202,454</b>
<b>Liabilities and Net Assets</b>		
Liabilities:		
Accounts payable	\$ 1,478,516	\$ 2,782,830
Accrued expenses	10,517,134	10,689,264
Pension liability	15,912,310	7,537,084
Held in custody for account of others	355,755	420,830
Deferred revenue and other liabilities	1,486,280	765,922
Capital lease obligations	-	32,434
Long-term debt	17,249,610	16,789,610
<b>Total liabilities</b>	<b>46,999,605</b>	<b>39,017,974</b>
Commitments and Contingencies (Notes 9, 10 and 12)		
Net Assets:		
Unrestricted	22,589,918	32,734,025
Temporarily restricted	9,180,372	9,703,201
Permanently restricted	7,827,404	7,747,254
<b>Total net assets</b>	<b>39,597,694</b>	<b>50,184,480</b>
<b>Total liabilities and net assets</b>	<b>\$ 86,597,299</b>	<b>\$ 89,202,454</b>

See Notes to Consolidated Financial Statements.

The Children's Home Society of Florida and Subsidiaries

Consolidated Statements of Activities  
Year Ended June 30, 2012

	2012			Total
	Unrestricted	Temporarily Restricted	Permanently Restricted	
Operating public support, revenues and other support:				
Operating public support:				
United Way	\$ 1,980,253	\$ -	\$ -	\$ 1,980,253
Bequests, contributions and special events	8,387,548	158,024	-	8,545,572
<b>Total operating public support</b>	<b>10,367,801</b>	<b>158,024</b>	<b>-</b>	<b>10,525,825</b>
Revenue from service contracts	98,964,749	-	-	98,964,749
Adoptive and other service fees	1,473,789	-	-	1,473,789
Investment income	243,403	-	-	243,403
Other revenue	1,264,204	-	-	1,264,204
<b>Total operating public support and revenues</b>	<b>112,313,946</b>	<b>158,024</b>	<b>-</b>	<b>112,471,970</b>
Net assets released from restrictions by satisfaction of program restrictions	613,612	(613,612)	-	-
<b>Total operating public support, revenues and other support</b>	<b>112,927,558</b>	<b>(455,588)</b>	<b>-</b>	<b>112,471,970</b>
Operating expenses:				
Program services	94,466,717	-	-	94,466,717
Supporting services:				
Management and general	12,895,442	-	-	12,895,442
Fundraising	3,353,183	-	-	3,353,183
<b>Total supporting services</b>	<b>16,248,625</b>	<b>-</b>	<b>-</b>	<b>16,248,625</b>
<b>Total operating expenses</b>	<b>110,715,342</b>	<b>-</b>	<b>-</b>	<b>110,715,342</b>
<b>Increase (decrease) in net assets from operations</b>	<b>2,212,216</b>	<b>(455,588)</b>	<b>-</b>	<b>1,756,628</b>
Other changes:				
Change in beneficial interest in the net assets of The Children's Home Society of Florida Foundation, Inc.	-	(67,241)	80,150	12,909
Net realized and unrealized gains on investments	24,973	-	-	24,973
Loss on interest rate swap	(2,194,867)	-	-	(2,194,867)
Pension related changes other than net periodic benefit cost	(10,186,429)	-	-	(10,186,429)
<b>(Decrease) increase in other changes</b>	<b>(12,356,323)</b>	<b>(67,241)</b>	<b>80,150</b>	<b>(12,343,414)</b>
<b>(Decrease) increase in net assets</b>	<b>(10,144,107)</b>	<b>(522,829)</b>	<b>80,150</b>	<b>(10,586,786)</b>
Net assets:				
Beginning	32,734,025	9,703,201	7,747,254	50,184,480
Ending	\$ 22,589,918	\$ 9,180,372	\$ 7,827,404	\$ 39,597,694

(Continued)

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
<b>Total operating public support</b>	<b>9,980,452</b>	<b>214,815</b>	<b>-</b>	<b>10,195,267</b>
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
<b>Total operating public support and revenues</b>	<b>112,192,774</b>	<b>214,815</b>	<b>-</b>	<b>112,407,589</b>
Net assets released from restrictions by satisfaction of program restrictions	42,884	(42,884)	-	-
<b>Total operating public support, revenues and other support</b>	<b>112,235,658</b>	<b>171,931</b>	<b>-</b>	<b>112,407,589</b>
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
<b>Total supporting services</b>	<b>15,962,103</b>	<b>-</b>	<b>-</b>	<b>15,962,103</b>
<b>Total operating expenses</b>	<b>111,581,687</b>	<b>-</b>	<b>-</b>	<b>111,581,687</b>
<b>Increase in net assets from operations</b>	<b>653,971</b>	<b>171,931</b>	<b>-</b>	<b>825,902</b>
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
Gain on interest rate swap	576,181	-	-	576,181
Pension related changes other than net periodic benefit cost	3,186,074	-	-	3,186,074
<b>Increase in other changes</b>	<b>4,675,975</b>	<b>3,537,514</b>	<b>7,887</b>	<b>8,221,376</b>
<b>Increase in net assets</b>	<b>5,329,946</b>	<b>3,709,445</b>	<b>7,887</b>	<b>9,047,278</b>
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

See Notes to Consolidated Financial Statements.

The Children's Home Society of Florida and Subsidiaries

Consolidated Statement of Functional Expenses  
Year Ended June 30, 2012

	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	\$ 264,119	\$ 623,142	\$ 635,400	\$ 2,679,424	\$ 41,993	\$ 3,078,372	\$ 920,508
Employee benefits	33,052	75,885	94,022	375,243	4,863	487,144	125,745
Payroll taxes and other	21,111	62,123	60,285	263,354	4,111	305,308	88,522
<b>Total salaries and related expenses</b>	<b>318,282</b>	<b>761,150</b>	<b>789,707</b>	<b>3,318,021</b>	<b>50,967</b>	<b>3,870,824</b>	<b>1,134,775</b>
Professional fees	93,337	6,073	166,494	52,109	92	132,500	38,683
Supplies	2,020	9,029	8,635	30,404	178	64,914	6,952
Telephone	2,683	21,388	28,709	58,896	792	82,195	22,079
Postage and shipping	99	2,299	1,408	7,385	41	19,186	6,298
Occupancy	14,443	83,409	83,408	232,977	5,016	275,326	150,135
Rental and maintenance of equipment	634	10,677	9,888	19,868	73	25,409	7,952
Printing and publications	443	1,938	1,356	40,474	(60)	11,901	1,557
Travel	8,248	41,605	31,690	163,102	1,097	240,342	43,192
Conferences, conventions and meetings	36,659	435	1,667	7,439	30	6,237	2,239
Specific assistance to individuals	-	35,496	35,923	115,231	16	76,576	786,323
Membership dues	111	952	776	2,869	60	5,621	1,137
Interest	-	18	67	119	-	31	-
Insurance	1,385	8,376	8,057	46,781	349	42,127	12,819
Provision for (recovery of) bad debt	-	107	234	1,378	-	-	419
Contributed goods	-	21,816	59,155	103,755	300	354,911	21
Other	617	17,455	149,555	25,874	104	18,127	4,799
<b>Total before depreciation and amortization</b>	<b>160,679</b>	<b>261,073</b>	<b>587,022</b>	<b>908,661</b>	<b>8,088</b>	<b>1,355,403</b>	<b>1,084,605</b>
Depreciation and amortization	13,056	61,122	22,188	29,536	54	69,199	4,061
<b>Total expenses</b>	<b>\$ 492,017</b>	<b>\$ 1,083,345</b>	<b>\$ 1,398,917</b>	<b>\$ 4,256,218</b>	<b>\$ 59,109</b>	<b>\$ 5,295,426</b>	<b>\$ 2,223,441</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, 2012

	Program Services						
	Daycare	Case Management/ Development Services	Case Management/ Mental Health	Home-Based Family Centered Casework	Homemaker	Intensive Family Preservation	Emergency Shelter/ Runaway
Salaries	\$ 975,149	\$ 16,273,138	\$ 10,749,745	\$ 471,070	\$ 468,341	\$ 3,332,703	\$ 1,701,026
Employee benefits	48,001	2,109,255	1,342,002	78,439	80,372	432,304	185,424
Payroll taxes and other	110,046	1,606,281	1,061,929	45,696	46,011	333,515	169,948
<b>Total salaries and related expenses</b>	<b>1,133,196</b>	<b>19,988,674</b>	<b>13,153,676</b>	<b>595,205</b>	<b>594,724</b>	<b>4,098,522</b>	<b>2,056,398</b>
Professional fees	5,975	667,373	156,026	1,776	1,559	21,928	52,258
Supplies	10,067	126,129	76,241	4,064	3,581	15,385	16,066
Telephone	15,958	498,307	303,404	13,022	16,503	81,419	43,966
Postage and shipping	1,241	35,415	14,112	557	271	4,141	3,025
Occupancy	178,976	858,410	1,219,086	46,741	74,696	410,564	185,162
Rental and maintenance of equipment	9,345	78,868	60,145	7,454	1,303	20,893	19,895
Printing and publications	1,298	13,484	9,562	756	159	6,447	2,654
Travel	13,230	1,553,864	696,866	17,387	33,785	309,056	90,358
Conferences, conventions and meetings	161	20,305	12,082	1,492	592	3,601	3,251
Specific assistance to individuals	127,726	1,415,490	482,882	13,527	2,849	91,101	180,593
Membership dues	1,464	19,601	15,601	3,696	586	3,483	13,802
Interest	-	-	1	-	-	1	-
Insurance	17,727	334,068	213,801	6,164	5,660	42,953	23,703
Provision for (recovery of) bad debt	-	648	14,020	-	-	-	3,005
Contributed goods	1,236	130,418	27,880	9,469	4,116	126,356	95,516
Other	21,314	170,027	53,700	2,512	2,031	18,567	13,382
<b>Total before depreciation and amortization</b>	<b>405,718</b>	<b>5,922,407</b>	<b>3,355,409</b>	<b>128,617</b>	<b>147,691</b>	<b>1,155,895</b>	<b>746,636</b>
Depreciation and amortization	42,048	70,238	93,539	11,269	3,196	24,820	56,142
<b>Total expenses</b>	<b>\$ 1,580,962</b>	<b>\$ 25,981,319</b>	<b>\$ 16,602,624</b>	<b>\$ 735,091</b>	<b>\$ 745,611</b>	<b>\$ 5,279,237</b>	<b>\$ 2,859,176</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, 2012

	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	\$ 6,609,945	\$ 525,847	\$ 4,975,683	\$ 1,855,581	\$ 56,181,186	\$ 6,952,622	\$ 1,614,854	\$ 8,567,476	\$ 64,748,662
Employee benefits	710,753	94,816	466,837	219,063	6,963,220	741,606	156,360	897,966	7,861,186
Payroll taxes and other	644,577	51,400	497,841	167,086	5,539,144	550,974	139,810	690,784	6,229,928
<b>Total salaries and related expenses</b>	<b>7,965,275</b>	<b>672,063</b>	<b>5,940,361</b>	<b>2,241,730</b>	<b>68,683,550</b>	<b>8,245,202</b>	<b>1,911,024</b>	<b>10,156,226</b>	<b>78,839,776</b>
Professional fees	145,249	8,737	163,712	97,940	1,811,821	523,811	139,950	663,761	2,475,582
Supplies	58,378	7,117	37,585	46,944	523,689	50,929	62,906	113,835	637,524
Telephone	142,160	22,262	136,215	55,932	1,545,890	292,641	71,381	364,022	1,909,912
Postage and shipping	9,935	711	3,458	9,977	119,559	34,851	20,590	55,441	175,000
Occupancy	448,637	105,935	803,196	214,772	5,390,889	420,586	119,717	540,303	5,931,192
Rental and maintenance of equipment	39,389	14,965	101,841	20,743	449,342	64,116	27,384	91,500	540,842
Printing and publications	6,607	331	6,049	71,725	176,681	36,203	78,767	114,970	291,651
Travel	452,137	37,761	366,847	129,940	4,230,507	412,689	98,298	510,987	4,741,494
Conferences, conventions and meetings	15,984	149	6,939	55,484	174,746	36,511	17,047	53,558	228,304
Specific assistance to individuals	2,545,757	563	852,725	115,699	6,878,477	11,640	22,702	34,342	6,912,819
Membership dues	6,248	787	5,987	7,978	90,759	79,702	10,216	89,918	180,677
Interest	231	-	170	156	794	624,277	181	624,458	625,252
Insurance	122,597	7,773	63,121	18,765	976,226	47,575	12,025	59,600	1,035,826
Provision for (recovery of) bad debt	31,273	-	4,623	-	55,707	(1,014)	-	(1,014)	54,693
Contributed goods	167,341	68,135	196,441	41,975	1,408,841	37,947	211,891	249,838	1,658,679
Other	88,390	78,302	91,540	84,709	841,005	636,821	511,540	1,148,361	1,989,366
<b>Total before depreciation and amortization</b>	<b>4,280,313</b>	<b>353,528</b>	<b>2,840,449</b>	<b>972,739</b>	<b>24,674,933</b>	<b>3,309,285</b>	<b>1,404,595</b>	<b>4,713,880</b>	<b>29,388,813</b>
Depreciation and amortization	155,173	29,296	362,192	61,105	1,108,234	1,340,955	37,564	1,378,519	2,486,753
<b>Total expenses</b>	<b>\$ 12,400,761</b>	<b>\$ 1,054,887</b>	<b>\$ 9,143,002</b>	<b>\$ 3,275,574</b>	<b>\$ 94,466,717</b>	<b>\$ 12,895,442</b>	<b>\$ 3,353,183</b>	<b>\$ 16,248,625</b>	<b>\$ 110,715,342</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, 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
<b>Total salaries and related expenses</b>	<b>287,175</b>	<b>731,856</b>	<b>1,617,201</b>	<b>3,408,206</b>	<b>49,960</b>	<b>3,828,059</b>	<b>1,062,277</b>
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
<b>Total before depreciation and amortization</b>	<b>78,962</b>	<b>248,346</b>	<b>901,154</b>	<b>1,048,989</b>	<b>10,880</b>	<b>1,334,360</b>	<b>1,306,900</b>
Depreciation and amortization	27,551	57,854	18,591	35,097	106	73,233	3,551
<b>Total expenses</b>	<b>\$ 393,688</b>	<b>\$ 1,038,056</b>	<b>\$ 2,536,946</b>	<b>\$ 4,492,292</b>	<b>\$ 60,946</b>	<b>\$ 5,235,652</b>	<b>\$ 2,372,728</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, 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
<b>Total salaries and related expenses</b>	<b>1,143,749</b>	<b>20,174,379</b>	<b>14,251,511</b>	<b>644,344</b>	<b>775,965</b>	<b>4,222,571</b>	<b>2,044,010</b>
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
<b>Total before depreciation and amortization</b>	<b>838,729</b>	<b>5,453,556</b>	<b>3,609,939</b>	<b>160,684</b>	<b>223,341</b>	<b>1,204,082</b>	<b>635,229</b>
Depreciation and amortization	22,588	60,422	68,739	9,428	3,596	26,786	69,196
<b>Total expenses</b>	<b>\$ 2,005,066</b>	<b>\$ 25,688,357</b>	<b>\$ 17,930,189</b>	<b>\$ 814,456</b>	<b>\$ 1,002,902</b>	<b>\$ 5,453,439</b>	<b>\$ 2,748,435</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, 2011

	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	\$ 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
<b>Total salaries and related expenses</b>	<b>6,495,451</b>	<b>735,297</b>	<b>5,568,410</b>	<b>2,211,105</b>	<b>69,251,526</b>	<b>7,928,802</b>	<b>1,728,206</b>	<b>9,657,008</b>	<b>78,908,534</b>
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
<b>Total before depreciation and amortization</b>	<b>4,143,240</b>	<b>325,323</b>	<b>2,827,438</b>	<b>1,007,148</b>	<b>25,358,300</b>	<b>3,246,189</b>	<b>1,689,188</b>	<b>4,935,377</b>	<b>30,293,677</b>
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
<b>Total expenses</b>	<b>\$ 10,754,159</b>	<b>\$ 1,087,946</b>	<b>\$ 8,746,119</b>	<b>\$ 3,258,208</b>	<b>\$ 95,619,584</b>	<b>\$ 12,515,070</b>	<b>\$ 3,447,033</b>	<b>\$ 15,962,103</b>	<b>\$ 111,581,687</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, 2012 and 2011

	2012	2011
<b>Cash Flows From Operating Activities</b>		
(Decrease) increase in net assets	\$ (10,586,786)	\$ 9,047,278
Adjustments to reconcile (decrease) increase in net assets to net cash (used in) provided by operating activities:		
Depreciation and amortization	2,486,753	2,379,476
Net realized and unrealized gains on investments	(24,973)	(913,720)
Loss (gain) on interest rate swap	2,194,867	(576,181)
Change in beneficial interest in the net assets of The Children's Home Society of Florida Foundation, Inc.	441,695	(3,722,301)
Pension related changes other than net periodic benefit cost	10,186,429	(3,186,074)
Contribution of property and equipment	(34,498)	(4,600)
Loss on sale/disposal of property and equipment	141,054	648,635
Provision for doubtful accounts	54,693	170,971
Changes in operating assets and liabilities:		
Accounts receivable	(2,084,901)	(1,145,762)
Prepaid expenses and other assets	136,475	(117,208)
Accounts payable	(1,304,314)	609,543
Accrued expense	(2,366,997)	219,993
Deferred revenue and other liabilities	720,358	(839,644)
Pension liability	(1,811,203)	(498,521)
<b>Net cash (used in) provided by operating activities</b>	<b>(1,851,348)</b>	<b>2,071,885</b>
<b>Cash Flows From Investing Activities</b>		
Increase in restricted certificate of deposit	(127)	(1,564)
Purchases of property and equipment	(1,312,000)	(2,180,603)
Proceeds from sale of property and equipment	208,909	187,585
Proceeds from sale of investments	4,740,411	1,071,548
Purchases of investments	(5,104,678)	(3,657,571)
<b>Net cash used in investing activities</b>	<b>(1,467,485)</b>	<b>(4,580,605)</b>
<b>Cash Flows From Financing Activities</b>		
Principal payments on capital lease obligations	(32,434)	(102,814)
Proceeds from long-term debt	750,000	67,560
Principal payments on long-term debt	(290,000)	(507,964)
<b>Net cash provided by (used in) financing activities</b>	<b>427,566</b>	<b>(543,218)</b>
<b>Net decrease in cash and cash equivalents</b>	<b>(2,891,267)</b>	<b>(3,051,938)</b>
<b>Cash and cash equivalents:</b>		
Beginning	10,228,642	13,280,580
Ending	<b>\$ 7,337,375</b>	<b>\$ 10,228,642</b>
<b>Supplemental Disclosures of Cash Flow Information</b>		
Cash paid during the year for interest	<b>\$ 625,217</b>	<b>\$ 644,938</b>

See Notes to Consolidated Financial Statements.

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

### Notes to Consolidated Financial Statements

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#### Note 1. Nature of Organization and Significant Accounting Policies

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

A summary of CHS' significant accounting policies follows:

**Principles of consolidation:** The consolidated financial statements of CHS include the accounts of CHS and 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.

**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 they be permanently maintained by CHS.

**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, 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 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

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#### Note 1. Nature of Organization 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. No impairment of its long-lived assets has been recognized during the years ended June 30, 2012 and 2011.

#### **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

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#### Note 1. Nature of Organization 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 \$103,900 and \$164,400 for the years ended June 30, 2012 and 2011, 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 \$1,693,000 and \$1,576,000 for the years ended June 30, 2012 and 2011, 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, 2012 and 2011. 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

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#### Note 1. Nature of Organization 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, 2009.

**Fair value of financial instruments:** At June 30, 2012 and 2011, 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, 2012 and 2011.

**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 2012. 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 30, 2012, 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, 2012 and 2011, are available for the following purposes:

	<u>2012</u>	<u>2011</u>
Beneficial interest in the net assets of The Children's Home Society of Florida Foundation, Inc.	\$ 8,583,562	\$ 9,105,407
Henry Training Fund	303,727	304,643
Children's Emergency Medical Services	232,540	232,577
Joshua House	60,543	60,574
	<u>\$ 9,180,372</u>	<u>\$ 9,703,201</u>

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

### Notes to Consolidated Financial Statements

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

As of June 30, 2012 and 2011, net assets of \$613,612 and \$42,884, 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 \$7,827,404 and \$7,747,254 at June 30, 2012 and 2011, 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, 2012 and 2011:

	<u>2012</u>	<u>2011</u>
Community based care	\$ 7,860,373	\$ 8,052,599
Government contracts	3,895,984	3,128,840
Pledges	1,708,862	846,330
Medicaid	612,262	613,469
Other	1,667,856	1,036,019
Adoptive fees	23,726	39,763
	<u>15,769,063</u>	<u>13,717,020</u>
Less allowance for doubtful accounts	(367,583)	(375,480)
Less discount for time-value of money	(38,707)	(8,975)
	<u>\$ 15,362,773</u>	<u>\$ 13,332,565</u>

Pledges that are included above and are considered unconditional promises to give at June 30, 2012 and 2011 are summarized as follows:

	<u>2012</u>	<u>2011</u>
Amounts due:		
Within one year	\$ 626,010	\$ 665,846
One to five years	452,872	176,284
More than five years	629,980	4,200
	<u>1,708,862</u>	<u>846,330</u>
Less allowance for doubtful accounts	(76,128)	(76,134)
Less discount for time-value of money	(38,707)	(8,975)
	<u>\$ 1,594,027</u>	<u>\$ 761,221</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, 2012 and 2011 consists of the following:

	<u>2012</u>	<u>2011</u>
Equity securities:		
Common stocks:		
S&P 500 stocks	\$ 3,275,038	\$ 4,355,709
Foreign stocks	441,527	656,756
S&P Midcap 400 stocks	139,288	-
OTC Market stocks	10,211	-
Mutual funds:		
Aggressive Allocation fund	508,200	455,163
Large Blend fund	1,133,035	46,853
Moderated Allocation fund	38,571	31,626
Conservative Allocation fund	29,583	23,193
Multi-Sector Bond fund	421,400	-
Intermediate-Term Bond fund	420,539	-
Inflation Protected Bond fund	429,449	-
Debt securities:		
Corporate bonds	1,248,215	1,854,478
U.S. Government obligations	1,002,469	1,284,507
	<u>\$ 9,097,525</u>	<u>\$ 8,708,285</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.

#### Note 5. Property and Equipment

Property and equipment consisted of the following at June 30, 2012 and 2011:

	<u>2012</u>	<u>2011</u>
Land	\$ 4,914,852	\$ 5,011,252
Buildings and improvements	36,640,337	36,702,063
Furniture and equipment	20,637,434	19,920,042
Leasehold improvements	1,367,593	1,329,990
Construction in progress	106,931	40,777
	<u>63,667,147</u>	<u>63,004,124</u>
Less accumulated depreciation	<u>(27,902,889)</u>	<u>(25,694,291)</u>
	<u>\$ 35,764,258</u>	<u>\$ 37,309,833</u>

Depreciation and amortization expense of property and equipment for the years ended June 30, 2012 and 2011, was approximately \$2,477,000 and \$2,370,000, 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 accounting principles generally accepted in the United States of America, and expands disclosures about fair value measurements. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. 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 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, 2012 and 2011:

	2012			
	Fair Value Measurements Using			
	Level 1	Level 2	Level 3	Total
Investments in securities:				
Equity securities:				
Common stocks:				
S&P 500 stocks	\$ 3,275,038	\$ -	\$ -	\$ 3,275,038
Foreign stocks	441,527	-	-	441,527
S&P Midcap 400 stocks	139,288	-	-	139,288
OTC Market stocks	10,211	-	-	10,211
Mutual funds:				
Aggressive Allocation fund	508,200	-	-	508,200
Large Blend fund	1,133,035	-	-	1,133,035
Moderated Allocation fund	38,571	-	-	38,571
Conservative Allocation fund	29,583	-	-	29,583
Multi-Sector Bond fund	421,400	-	-	421,400
Intermediate-Term Bond fund	420,539	-	-	420,539
Inflation Protected Bond fund	429,449	-	-	429,449
Debt securities:				
Corporate bonds	1,141,719	106,496	-	1,248,215
U.S. Government obligations	843,219	159,250	-	1,002,469
	<b>\$ 8,831,779</b>	<b>\$ 265,746</b>	<b>\$ -</b>	<b>\$ 9,097,525</b>
Liabilities:				
Interest rate swap obligation	\$ -	\$ 4,635,941	\$ -	\$ 4,635,941

The Children's Home Society of Florida and Subsidiaries

Notes to Consolidated Financial Statements

Note 6. Fair Value Measurements (Continued)

	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
	<u>\$ 8,393,178</u>	<u>\$ 315,107</u>	<u>\$ -</u>	<u>\$ 8,708,285</u>
Liabilities:				
Interest rate swap obligation	\$ -	\$ 2,441,074	\$ -	\$ 2,441,074

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

### Notes to Consolidated Financial Statements

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

The fair value of actively traded debt and equity securities are based on quoted market prices. Fair value of inactively traded debt securities are based on quoted market prices of identical or similar securities or based on observable inputs like interest rates using either a market or income valuation approach and are generally classified as Level 2.

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 are fair valued by using third party services and 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. Observable market inputs include yield curves, counterparty credit risk and other related data.

#### Note 7. Accrued Expenses

Accrued expenses consisted of the following at June 30, 2012 and 2011:

	<b>2012</b>	2011
Accrued salaries and benefits	<b>\$ 3,921,320</b>	\$ 6,055,282
Accrued vacation	<b>1,797,843</b>	2,040,879
Fair value of interest rate swap	<b>4,635,941</b>	2,441,074
Other	<b>162,030</b>	152,029
	<b><u>\$ 10,517,134</u></b>	<u>\$ 10,689,264</u>

CHS has a workers' compensation indemnity policy, whereby, CHS is responsible for the first \$350,000 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 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 \$957,754 and \$958,139 at June 30, 2012 and 2011, 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, 2012 and 2011:

	<u>2012</u>	<u>2011</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 (.24% at June 30, 2012). 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).	<b>\$ 15,510,000</b>	\$ 15,800,000
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.	<b>740,822</b>	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.	<b>248,788</b>	248,788
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 July 2026, at which time, the entire unpaid principal is due and payable. The note is collateralized by property in Sebring, Florida.	<b>750,000</b>	-
	<b><u>\$ 17,249,610</u></b>	<b><u>\$ 16,789,610</u></b>

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

### Notes to Consolidated Financial Statements

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

Maturities of long-term debt, assuming that the letter of credit (see Note 9) is renewed over the term of the bonds payable, as of June 30, 2012 are as follows:

Year Ending June 30,	Amount
2013	\$ 300,000
2014	315,000
2015	335,000
2016	350,000
2017	370,000
Thereafter	15,579,610
	<u>\$ 17,249,610</u>

If the letter of credit is not renewed on March 31, 2014, the entire amount of the bonds payable (\$14,895,000) would be due and payable at that time.

Effective October 2005 and April 2008, CHS entered into two interest rate swap agreements with a notional amount that decreases every six months (\$8,135,000 and \$7,375,000, respectively, at June 30, 2012). 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 (.24% at June 30, 2012). The swap agreements terminate in May 2032 and May 2038, respectively. For the years ended June 30, 2012 and 2011, the interest rate swaps had a total negative fair value of \$4,635,941 and \$2,441,074 (see Note 7), respectively, resulting in a (loss) gain of (\$2,194,867) and \$576,181, respectively, which is reflected in the accompanying consolidated statements of activities.

At June 30, 2012, 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 0.60% (.84% at June 30, 2012), 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 \$8,515,994 at June 30, 2012. There was no outstanding balance on the line of credit at June 30, 2012 and 2011.

#### Note 9. Letter of Credit

CHS entered into a letter of credit agreement to support the \$16,680,000 bonds payable (see Note 8). The letter of credit, if drawn, bears interest at 15% per annum. Under the terms of the letter of credit agreement, CHS is required to maintain certain financial covenants relating to fixed charge coverage ratio, unrestricted net assets coverage and unrestricted, unencumbered liquid assets coverage. As of June 30, 2012 and 2011, no amount has been drawn on the letter of credit. The letter of credit expires on March 31, 2014.

#### Note 10. Commitments

**Leases:** Certain premises used by operating divisions are occupied under operating leases, ranging up to seven years. Rent expense under all leases was approximately \$3,237,000 and \$3,185,000 for the years ended June 30, 2012 and 2011, respectively.

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

**Notes to Consolidated Financial Statements**

**Note 10. Commitments (Continued)**

Future minimum lease payments under these operating leases as of June 30, 2012 are as follows:

Year Ending June 30,	Amount
2013	\$ 2,521,352
2014	2,333,738
2015	2,147,042
2016	1,421,957
2017	772,929
Thereafter	2,207,757
	<b>\$ 11,404,775</b>

**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 accrue 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, 2012, and a statement of the funded status as of June 30, 2012 and 2011:

**Reconciliation of benefit obligation:**

	2012	2011
Accumulated benefit obligation at end of year	<b>\$ 43,101,729</b>	\$ 32,169,369
Change in projected benefit obligation:		
Projected benefit obligation at beginning of year	<b>\$ 32,169,369</b>	\$ 31,359,360
Interest cost	<b>1,688,052</b>	1,566,027
Actuarial loss	<b>10,019,610</b>	64,200
Benefit payments	<b>(775,302)</b>	(820,218)
<b>Projected benefit obligation at end of year</b>	<b>\$ 43,101,729</b>	\$ 32,169,369

The Children's Home Society of Florida and Subsidiaries

Notes to Consolidated Financial Statements

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

	<u>2012</u>	<u>2011</u>
Change in fair value of plan assets:		
Fair value of plan assets at beginning of year	\$ 24,632,285	\$ 20,137,681
Actual return on plan assets	1,007,451	3,701,521
Employer contributions	2,324,985	1,613,301
Benefit payments	(775,302)	(820,218)
<b>Fair value of plan assets at end of year</b>	<b>\$ 27,189,419</b>	<b>\$ 24,632,285</b>
<b>Unfunded status at end of year</b>	<b>\$ (15,912,310)</b>	<b>\$ (7,537,084)</b>

Amounts recognized in the consolidated statements of financial position consisted of the following as of June 30, 2012 and 2011:

	<u>2012</u>	<u>2011</u>
Intangible asset	\$ 2,513	\$ 12,589
Pension liability	(15,912,310)	(7,537,084)
<b>Net liability</b>	<b>\$ (15,909,797)</b>	<b>\$ (7,524,495)</b>

Pension related changes other than net periodic benefit cost for the years ended June 30, 2012 and 2011 are as follows:

	<u>2012</u>	<u>2011</u>
Net actuarial loss (gain)	\$ 11,033,022	\$ (2,005,923)
Amortization of actuarial gain	(846,593)	(1,180,151)
<b>Pension related changes other than net periodic benefit cost</b>	<b>\$ 10,186,429</b>	<b>\$ (3,186,074)</b>

## 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, 2012 and 2011:

	<b>2012</b>			
	<b>Fair Value Measurements Using</b>			
	<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>	<b>Total</b>
Equity securities:				
Common stocks:				
S&P 500 stocks	\$ 8,480,896	\$ -	\$ -	\$ 8,480,896
Foreign stocks	2,798,803	-	-	2,798,803
S&P Midcap 400 stocks	2,286,078	-	-	2,286,078
Debt securities:				
Money market fund	3,580,040	-	-	3,580,040
Corporate and foreign bonds	-	8,207,248	-	8,207,248
Municipal obligations	-	1,305,408	-	1,305,408
U.S. treasury obligations	530,946	-	-	530,946
	<b>\$ 17,676,763</b>	<b>\$ 9,512,656</b>	<b>\$ -</b>	<b>\$ 27,189,419</b>
	<b>2011</b>			
	<b>Fair Value Measurements Using</b>			
	<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>	<b>Total</b>
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
	<b>\$ 16,775,322</b>	<b>\$ 7,856,963</b>	<b>\$ -</b>	<b>\$ 24,632,285</b>

CHS' pension plan weighted-average asset allocations at June 30, 2012 and 2011, by asset category are as follows:

	<b>Target</b>	<b>Percentage of Plan</b>	
	<b>Allocation</b>	<b>Assets at June 30,</b>	
	<b>2013</b>	2012	2011
Equity securities	<b>55%</b>	50%	58%
Debt securities	<b>45%</b>	50%	42%
	<b>100%</b>	100%	100%

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

### Notes to Consolidated Financial Statements

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#### 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 2012 and 2011 are as follows:

	<u>2012</u>	<u>2011</u>
Interest cost	\$ 1,688,052	\$ 1,566,027
Expected return on plan assets	(2,020,863)	(1,631,398)
Amortization of actuarial loss	846,593	1,180,151
<b>Net periodic benefit cost</b>	<b>\$ 513,782</b>	<b>\$ 1,114,780</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, 2013 are \$2,200,000.

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

Year Ending June 30,	Amount
2013	\$ 2,545,622
2014	1,723,239
2015	1,428,309
2016	1,902,109
2017	2,013,182
2018 - 2022	11,608,261

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

### Notes to Consolidated Financial Statements

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#### Note 11. Retirement Plans (Continued)

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

	2012	2011
Weighted-average assumptions as of June 30:		
Discount rate	3.75%	5.35%
Expected return on plan assets	8.00%	8.00%
Rate of compensation increase	4.25%	4.25%
	2012	2011
Alternative amortization methods used to amortize:		
Prior service cost	<b>Straight-line</b>	Straight-line
Unrecognized net (gain) or loss	<b>Straight-line</b>	Straight-line
Measurement date used	<b>June 30, 2012</b>	June 30, 2011

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 \$1,544,000 and \$1,466,600, respectively, for the years ended June 30, 2012 and 2011.

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 \$95,200 and \$70,200, respectively, for the years ended June 30, 2012 and 2011.

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, 2012 and 2011.

#### 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 potential loss 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

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

At June 30, 2012 and 2011, CHS's beneficial interest in the net assets of the Foundation was \$16,410,966 and \$16,852,661, 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 (\$67,241) and \$3,537,514, net of distributions (contributions to the Foundation) to CHS of \$454,604 and (\$176,900), for the years ended June 30, 2012 and 2011, 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 \$80,150 and \$7,887 for the years ended June 30, 2012 and 2011, 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, 2012, and have issued our report thereon dated October 30, 2012. 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 LLP*

Orlando, Florida  
October 30, 2012