

# The Children's Home Society of Florida and Subsidiaries

Consolidated Financial Report  
June 30, 2013 and 2012

## Contents

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Independent Auditor's Report on the Financial Statements	1 – 2
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Financial Statements	
Consolidated statements of financial position	3
Consolidated statements of activities	4 – 5
Consolidated statements of functional expenses	6 – 11
Consolidated statements of cash flows	12
Notes to consolidated financial statements	13 – 29

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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>	30 – 31
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## Independent Auditor's Report

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

### Report on the Financial Statements

We have audited the accompanying consolidated financial statements of The Children's Home Society of Florida and its subsidiaries, which comprise the consolidated statements of financial position as of June 30, 2013 and 2012, and the related consolidated statements of activities, functional expenses and cash flows for the years then ended, and the related notes to the consolidated financial statements.

### Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

### Auditor's Responsibility

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 audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

### Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of The Children's Home Society of Florida and its subsidiaries as of June 30, 2013 and 2012, and the changes in their net assets and their cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

## **Other Reporting Required By Government Auditing Standards**

In accordance with *Government Auditing Standards*, we have also issued our reports dated October 31, 2013 and October 30, 2012 on our consideration of The Children's Home Society of Florida's internal control over financial reporting and on 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 internal control over financial reporting or on compliance. These reports are an integral part of an audit performed in accordance with *Government Auditing Standards* in considering The Children's Home Society of Florida's internal control over financial reporting and compliance.

*McGladrey LLP*

Orlando, Florida  
October 31, 2013

The Children's Home Society of Florida and Subsidiaries

Consolidated Statements of Financial Position  
June 30, 2013 and 2012

	2013	2012
<b>Assets</b>		
Cash and cash equivalents	\$ 7,826,824	\$ 7,337,375
Accounts receivable, net	14,289,534	15,362,773
Prepaid expenses and other assets	2,412,101	2,430,368
Investments	9,953,038	9,097,525
Restricted certificate of deposit	-	194,034
Beneficial interest in the net assets of The Children's Home Society of Florida Foundation, Inc.	18,736,427	16,410,966
Property and equipment, net	36,495,794	35,764,258
<b>Total assets</b>	<b>\$ 89,713,718</b>	<b>\$ 86,597,299</b>
<b>Liabilities and Net Assets</b>		
Liabilities		
Accounts payable	\$ 1,597,146	\$ 1,478,516
Accrued expenses	5,323,562	5,881,193
Deferred revenue and other liabilities	1,997,891	1,486,280
Pension liability	10,416,352	15,912,310
Held in custody for account of others	331,355	355,755
Fair value of interest rate swap	3,054,093	4,635,941
Long-term debt	17,069,610	17,249,610
<b>Total liabilities</b>	<b>39,790,009</b>	<b>46,999,605</b>
Commitments and Contingencies (Notes 9, 10 and 12)		
Net Assets		
Unrestricted	30,599,514	22,589,918
Temporarily restricted	11,631,378	9,180,372
Permanently restricted	7,692,817	7,827,404
<b>Total net assets</b>	<b>49,923,709</b>	<b>39,597,694</b>
<b>Total liabilities and net assets</b>	<b>\$ 89,713,718</b>	<b>\$ 86,597,299</b>

See Notes to Consolidated Financial Statements.

The Children's Home Society of Florida and Subsidiaries

Consolidated Statements of Activities  
Year Ended June 30, 2013

	2013			Total
	Unrestricted	Temporarily Restricted	Permanently Restricted	
Operating public support, revenues and other support:				
Operating public support:				
United Way	\$ 2,052,267	\$ -	\$ -	\$ 2,052,267
Bequests, contributions and special events	7,644,735	71,224	-	7,715,959
<b>Total operating public support</b>	<b>9,697,002</b>	<b>71,224</b>	<b>-</b>	<b>9,768,226</b>
Revenue from service contracts	97,708,629	-	-	97,708,629
Adoptive and other service fees	1,261,063	-	-	1,261,063
Investment income	282,508	-	-	282,508
Other revenue	2,101,770	-	-	2,101,770
<b>Total operating public support and revenues</b>	<b>111,050,972</b>	<b>71,224</b>	<b>-</b>	<b>111,122,196</b>
Net assets released from restrictions by satisfaction of program restrictions	4,636	(4,636)	-	-
<b>Total operating public support, revenues and other support</b>	<b>111,055,608</b>	<b>66,588</b>	<b>-</b>	<b>111,122,196</b>
Operating expenses:				
Program services	93,636,108	-	-	93,636,108
Supporting services:				
Management and general	13,433,167	-	-	13,433,167
Fundraising	3,980,920	-	-	3,980,920
<b>Total supporting services</b>	<b>17,414,087</b>	<b>-</b>	<b>-</b>	<b>17,414,087</b>
<b>Total operating expenses</b>	<b>111,050,195</b>	<b>-</b>	<b>-</b>	<b>111,050,195</b>
<b>Increase in net assets from operations</b>	<b>5,413</b>	<b>66,588</b>	<b>-</b>	<b>72,001</b>
Other changes:				
Change in beneficial interest in the net assets of The Children's Home Society of Florida Foundation, Inc.	-	2,384,418	(134,587)	2,249,831
Net realized and unrealized gains on investments	498,759	-	-	498,759
Gain on interest rate swap	1,581,848	-	-	1,581,848
Pension related changes other than net periodic benefit cost	5,923,576	-	-	5,923,576
<b>Increase (decrease) in other changes</b>	<b>8,004,183</b>	<b>2,384,418</b>	<b>(134,587)</b>	<b>10,254,014</b>
<b>Increase (decrease) in net assets</b>	<b>8,009,596</b>	<b>2,451,006</b>	<b>(134,587)</b>	<b>10,326,015</b>
Net assets:				
Beginning	22,589,918	9,180,372	7,827,404	39,597,694
Ending	<b>\$ 30,599,514</b>	<b>\$ 11,631,378</b>	<b>\$ 7,692,817</b>	<b>\$ 49,923,709</b>

(Continued)

The Children's Home Society of Florida and Subsidiaries

Consolidated Statements of Activities (Continued)  
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

See Notes to Consolidated Financial Statements.

The Children's Home Society of Florida and Subsidiaries

Consolidated Statements of Functional Expenses  
Year Ended June 30, 2013

	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	\$ 206,238	\$ 733,996	\$ 640,288	\$ 2,475,761	\$ 34,199	\$ 2,879,375	\$ 787,447
Employee benefits	33,098	114,629	105,050	404,328	4,872	532,570	119,319
Payroll taxes and other	16,909	69,146	58,677	229,899	3,137	263,182	72,309
<b>Total salaries and related expenses</b>	<b>256,245</b>	<b>917,771</b>	<b>804,015</b>	<b>3,109,988</b>	<b>42,208</b>	<b>3,675,127</b>	<b>979,075</b>
Professional fees	14,152	10,439	141,683	52,907	44	113,438	30,382
Supplies	1,785	7,114	9,367	21,959	153	61,629	6,781
Telephone	3,875	26,050	25,017	56,255	551	76,595	22,578
Postage and shipping	236	2,933	1,364	7,920	36	18,668	5,532
Occupancy	10,725	82,743	75,279	242,209	6,291	249,445	144,619
Rental and maintenance of equipment	373	9,698	11,132	21,934	86	54,623	12,926
Printing and publications	116	2,547	2,833	38,535	3	5,588	1,139
Travel	3,970	52,967	40,709	147,202	1,389	229,223	38,307
Conferences, conventions and meetings	3,238	534	19,846	5,409	13	6,974	951
Specific assistance to individuals	8	39,237	21,377	87,353	28	47,258	120,720
Membership dues	593	1,388	849	2,659	66	5,769	933
Interest	-	-	-	-	-	-	-
Insurance	233	10,789	8,274	51,151	180	43,407	11,596
Provision for bad debt	-	7	86	44,094	-	3,825	-
Contributed goods	-	13,904	30,225	100,921	1,175	446,351	3,829
Other	379	20,863	9,160	29,189	312	17,249	4,664
<b>Total before depreciation and amortization</b>	<b>39,683</b>	<b>281,213</b>	<b>397,201</b>	<b>909,697</b>	<b>10,327</b>	<b>1,380,042</b>	<b>404,957</b>
Depreciation and amortization	4,473	56,949	21,777	21,131	39	23,532	4,673
<b>Total expenses</b>	<b>\$ 300,401</b>	<b>\$ 1,255,933</b>	<b>\$ 1,222,993</b>	<b>\$ 4,040,816</b>	<b>\$ 52,574</b>	<b>\$ 5,078,701</b>	<b>\$ 1,388,705</b>

See Notes to Consolidated Financial Statements.

The Children's Home Society of Florida and Subsidiaries

Consolidated Statements of Functional Expenses (Continued)

Year Ended June 30, 2013

	Program Services						
	Daycare	Case Management/ Development Services	Case Management/ Mental Health	Home-Based Family Centered Casework	Homemaker	Intensive Family Preservation	Emergency Shelter/ Runaway
Salaries	\$ 743,721	\$ 18,375,817	\$ 9,978,887	\$ 474,945	\$ 457,921	\$ 3,020,184	\$ 1,780,420
Employee benefits	19,095	2,853,035	1,545,300	99,679	87,394	520,353	243,824
Payroll taxes and other	82,974	1,721,555	929,544	43,311	43,121	282,240	167,993
<b>Total salaries and related expenses</b>	<b>845,790</b>	<b>22,950,407</b>	<b>12,453,731</b>	<b>617,935</b>	<b>588,436</b>	<b>3,822,777</b>	<b>2,192,237</b>
Professional fees	6,713	664,207	127,901	2,255	1,530	26,666	23,706
Supplies	6,341	129,003	92,594	5,426	2,240	19,302	20,327
Telephone	13,447	447,661	297,581	13,366	7,704	69,957	46,715
Postage and shipping	771	35,170	16,974	528	109	2,926	2,367
Occupancy	140,792	877,245	1,145,855	52,266	77,166	391,244	176,059
Rental and maintenance of equipment	6,708	54,446	65,284	4,681	1,747	21,504	16,350
Printing and publications	80	11,483	9,083	5	620	4,991	1,749
Travel	13,370	1,833,360	664,296	23,060	34,890	265,807	111,609
Conferences, conventions and meetings	1,767	29,278	48,028	322	258	1,928	4,119
Specific assistance to individuals	142,112	1,451,840	476,191	18,160	987	70,507	192,434
Membership dues	1,107	22,028	18,758	4,329	687	3,225	15,058
Interest	-	-	-	-	-	-	-
Insurance	14,576	366,622	191,435	7,937	6,035	45,211	34,548
Provision for bad debt	-	41,597	12,065	-	-	5	3,618
Contributed goods	3,320	283,864	91,221	11,520	2,565	114,582	45,053
Other	12,643	147,443	54,132	2,964	1,487	16,896	15,281
<b>Total before depreciation and amortization</b>	<b>363,747</b>	<b>6,395,247</b>	<b>3,311,398</b>	<b>146,819</b>	<b>138,025</b>	<b>1,054,751</b>	<b>708,993</b>
Depreciation and amortization	18,825	65,913	71,987	6,322	3,283	15,108	41,845
<b>Total expenses</b>	<b>\$ 1,228,362</b>	<b>\$ 29,411,567</b>	<b>\$ 15,837,116</b>	<b>\$ 771,076</b>	<b>\$ 729,744</b>	<b>\$ 4,892,636</b>	<b>\$ 2,943,075</b>

See Notes to Consolidated Financial Statements.

The Children's Home Society of Florida and Subsidiaries

Consolidated Statements of Functional Expenses (Continued)

Year Ended June 30, 2013

	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	\$ 6,271,284	\$ 479,687	\$ 4,587,459	\$ 1,788,375	\$ 55,716,004	\$ 6,976,670	\$ 1,695,934	\$ 8,672,604	\$ 64,388,608
Employee benefits	927,847	91,895	613,743	282,299	8,598,330	1,510,066	247,965	1,758,031	10,356,361
Payroll taxes and other	579,583	44,500	433,274	158,978	5,200,332	555,644	142,618	698,262	5,898,594
<b>Total salaries and related expenses</b>	<b>7,778,714</b>	<b>616,082</b>	<b>5,634,476</b>	<b>2,229,652</b>	<b>69,514,666</b>	<b>9,042,380</b>	<b>2,086,517</b>	<b>11,128,897</b>	<b>80,643,563</b>
Professional fees	163,686	5,002	94,524	41,048	1,520,283	489,946	214,733	704,679	2,224,962
Supplies	44,823	5,740	32,758	35,603	502,945	51,592	83,578	135,170	638,115
Telephone	128,623	19,415	145,158	72,066	1,472,614	269,724	86,533	356,257	1,828,871
Postage and shipping	9,437	557	3,709	12,560	121,797	35,975	21,455	57,430	179,227
Occupancy	484,409	95,638	928,640	227,759	5,408,384	434,178	103,029	537,207	5,945,591
Rental and maintenance of equipment	33,551	4,879	76,368	20,204	416,494	48,986	20,350	69,336	485,830
Printing and publications	34,261	83	3,046	70,977	187,139	29,182	119,563	148,745	335,884
Travel	420,424	32,369	412,942	101,957	4,427,851	374,556	87,029	461,585	4,889,436
Conferences, conventions and meetings	8,386	207	16,957	29,679	177,894	50,260	13,376	63,636	241,530
Specific assistance to individuals	2,323,325	2,522	891,146	5,444	5,890,649	22,732	98,919	121,651	6,012,300
Membership dues	7,315	660	5,766	5,294	96,484	74,957	7,122	82,079	178,563
Interest	-	-	-	-	-	600,721	595	601,316	601,316
Insurance	137,277	8,105	75,447	21,266	1,034,089	50,644	13,194	63,838	1,097,927
Provision for bad debt	1,534	20	7,303	-	114,154	21,816	-	21,816	135,970
Contributed goods	54,824	13,046	124,158	26,404	1,366,962	7,309	186,345	193,654	1,560,616
Other	97,483	5,305	105,926	62,535	603,911	442,027	814,222	1,256,249	1,860,160
<b>Total before depreciation and amortization</b>	<b>3,949,358</b>	<b>193,548</b>	<b>2,923,848</b>	<b>732,796</b>	<b>23,341,650</b>	<b>3,004,605</b>	<b>1,870,043</b>	<b>4,874,648</b>	<b>28,216,298</b>
Depreciation and amortization	132,414	17,209	215,465	58,847	779,792	1,386,182	24,360	1,410,542	2,190,334
<b>Total expenses</b>	<b>\$ 11,860,486</b>	<b>\$ 826,839</b>	<b>\$ 8,773,789</b>	<b>\$ 3,021,295</b>	<b>\$ 93,636,108</b>	<b>\$ 13,433,167</b>	<b>\$ 3,980,920</b>	<b>\$ 17,414,087</b>	<b>\$ 111,050,195</b>

See Notes to Consolidated Financial Statements.

The Children's Home Society of Florida and Subsidiaries

Consolidated Statements 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 Statements 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 Statements 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 Statements of Cash Flows  
Years Ended June 30, 2013 and 2012

	2013	2012
Cash Flows From Operating Activities		
Increase (decrease) in net assets	\$ 10,326,015	\$ (10,586,786)
Adjustments to reconcile increase (decrease) in net assets to net cash provided by (used in) operating activities:		
Depreciation and amortization	2,190,334	2,486,753
Net realized and unrealized gains on investments	(498,759)	(24,973)
(Gain) loss on interest rate swap	(1,581,848)	2,194,867
Change in beneficial interest in the net assets of The Children's Home Society of Florida Foundation, Inc.	(2,325,461)	441,695
Pension related changes other than net periodic benefit cost	(5,923,576)	10,186,429
Contribution of property and equipment	(77,994)	(34,498)
Loss on sale/disposal of property and equipment	46,236	141,054
Provision for doubtful accounts	135,970	54,693
Changes in operating assets and liabilities:		
Accounts receivable	937,269	(2,084,901)
Prepaid expenses and other assets	8,161	136,475
Accounts payable	118,630	(1,304,314)
Accrued expense	(557,631)	(2,366,997)
Deferred revenue and other liabilities	511,611	720,358
Pension liability	427,618	(1,811,203)
<b>Net cash provided by (used in) operating activities</b>	<b>3,736,575</b>	<b>(1,851,348)</b>
Cash Flows From Investing Activities		
Decrease (increase) in restricted certificate of deposit	194,034	(127)
Purchases of property and equipment	(3,022,397)	(1,312,000)
Proceeds from sale of property and equipment	117,991	208,909
Proceeds from sale of investments	10,547,959	4,740,411
Purchases of investments	(10,904,713)	(5,104,678)
<b>Net cash used in investing activities</b>	<b>(3,067,126)</b>	<b>(1,467,485)</b>
Cash Flows From Financing Activities		
Principal payments on capital lease obligations	-	(32,434)
Proceeds from long-term debt	120,000	750,000
Principal payments on long-term debt	(300,000)	(290,000)
<b>Net cash (used in) provided by financing activities</b>	<b>(180,000)</b>	<b>427,566</b>
<b>Net increase (decrease) in cash and cash equivalents</b>	<b>489,449</b>	<b>(2,891,267)</b>
Cash and cash equivalents:		
Beginning	7,337,375	10,228,642
Ending	<u>\$ 7,826,824</u>	<u>\$ 7,337,375</u>
Supplemental Disclosures of Cash Flow Information -		
Cash paid during the year for interest	<u>\$ 604,097</u>	<u>\$ 625,217</u>

See Notes to Consolidated Financial Statements.

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

### Notes to Consolidated Financial Statements

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#### Note 1. Nature of Organization 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 – Buckner, LLC
Centennial Holdings – Treasure Coast, LLC	Centennial Holdings – Central Florida, LLC
Centennial Holdings North Central, LLC	Centennial Holdings – Emerald Coast, LLC
ECIL Capital, LLC	Centennial Holdings – Gulf Coast, LLC
Centennial Holdings Southwest, LLC	Centennial Holdings – Intercoastal, LLC
Centennial Holdings Collier Child Care, LLC	Centennial Holdings – Mid-Florida, LLC
Children's Home Society Early Learning Initiatives, LLC	Centennial Holdings – North Coastal, LLC
Centennial Holdings – Brevard, LLC	Centennial Holdings – Southeast, 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 may or will be met, either by actions of CHS and/or the passage of time.

Permanently restricted net assets – Net assets subject to donor-imposed stipulations that 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. 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 was restricted to specific programs and was 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 gains or losses from disposition are credited or charged to income. 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.

**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 or asset groups to be held and used is measured by a comparison of the carrying amount of an asset or asset group to future net cash flows expected to be generated by the asset or asset group. If such assets or asset groups are considered to be impaired, the impairment to be recognized is measured by the amount by which the carrying amount of the assets or asset groups exceeds the fair value of the assets or asset groups. Assets or asset groups 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 or asset groups has been recognized during the years ended June 30, 2013 and 2012.

**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 \$152,300 and \$103,900 for the years ended June 30, 2013 and 2012, 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 \$1,561,000 and \$1,659,000 for the years ended June 30, 2013 and 2012, 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). CHS has two interest rate swap agreements in place at June 30, 2013 and 2012. 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, 2010.

**Fair value of financial instruments:** At June 30, 2013 and 2012, 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, 2013 and 2012.

**Reclassifications:** Certain amounts in the 2012 consolidated financial statements have been reclassified in order to conform with the 2013 presentation. These reclassifications have no impact on total assets, total liabilities, total net assets, or changes in net assets previously reported.

**Recent accounting pronouncements:** The Financial Accounting Standards Board has issued certain new or modifications to, or interpretations of, existing accounting guidance. CHS has considered the new pronouncements and does not believe that any other new or modified guidance 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 31, 2013, 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, 2013 and 2012, are available for the following purposes:

	<u>2013</u>	<u>2012</u>
Beneficial interest in the net assets of The Children's Home Society of Florida Foundation, Inc.	\$ 11,043,610	\$ 8,583,562
Henry Training Fund	294,685	303,727
Children's Emergency Medical Services	232,540	232,540
Joshua House	60,543	60,543
	<u>\$ 11,631,378</u>	<u>\$ 9,180,372</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, 2013 and 2012, net assets of \$4,636 and \$613,612, 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 \$7,692,817 and \$7,827,404 at June 30, 2013 and 2012, 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, 2013 and 2012:

	<u>2013</u>	<u>2012</u>
Community based care	\$ 8,113,173	\$ 7,860,373
Government contracts	2,888,116	3,895,984
Pledges	1,223,839	1,708,862
Medicaid	574,684	612,262
Other	1,963,881	1,691,582
	<u>14,763,693</u>	<u>15,769,063</u>
Less allowance for doubtful accounts	(414,181)	(367,583)
Less discount for time-value of money	(59,978)	(38,707)
	<u>\$ 14,289,534</u>	<u>\$ 15,362,773</u>

Pledges that are included above are unconditional promises to give at June 30, 2013 and 2012 and are summarized as follows:

	<u>2013</u>	<u>2012</u>
Amounts due:		
Within one year	\$ 315,757	\$ 626,010
One to five years	358,082	452,872
More than five years	550,000	629,980
	<u>1,223,839</u>	<u>1,708,862</u>
Less allowance for doubtful accounts	(100,933)	(76,128)
Less discount for time-value of money	(59,978)	(38,707)
	<u>\$ 1,062,928</u>	<u>\$ 1,594,027</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, 2013 and 2012 consists of the following:

	<u>2013</u>	<u>2012</u>
Common stocks:		
S&P 500 stocks	\$ 1,207,944	\$ 3,275,038
Foreign stocks	189,758	441,527
S&P Midcap 400 stocks	-	139,288
OTC Market stocks	-	10,211
Mutual funds:		
Intermediate-Term Bond fund	2,725,003	420,539
Large Blend fund	2,158,715	1,133,035
Foreign Large Blend fund	1,376,377	-
Mid-Cap Growth fund	742,148	-
Target Date fund	588,104	-
Multi-Sector Bond fund	435,438	421,400
Inflation Protected Bond fund	409,249	429,449
Retirement Income fund	100,001	-
Small Blend fund	10,256	-
Large Growth fund	10,045	-
Aggressive Allocation fund	-	508,200
Moderated Allocation fund	-	38,571
Conservative Allocation fund	-	29,583
Corporate bonds	-	1,248,215
U.S. Government obligations	-	1,002,469
	<u>\$ 9,953,038</u>	<u>\$ 9,097,525</u>

#### Note 5. Property and Equipment

Property and equipment consisted of the following at June 30, 2013 and 2012:

	<u>2013</u>	<u>2012</u>
Land	\$ 4,851,402	\$ 4,914,852
Buildings and improvements	37,447,300	36,640,337
Furniture and equipment	21,151,543	20,637,434
Leasehold improvements	1,379,967	1,367,593
Construction in progress	1,706,134	106,931
	<u>66,536,346</u>	<u>63,667,147</u>
Less accumulated depreciation	<u>(30,040,552)</u>	<u>(27,902,889)</u>
	<u>\$ 36,495,794</u>	<u>\$ 35,764,258</u>

Depreciation and amortization expense of property and equipment for the years ended June 30, 2013 and 2012, was approximately \$2,180,000 and \$2,477,000, 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, 2013 and 2012:

	2013			
	Fair Value Measurements Using			
	Level 1	Level 2	Level 3	Total
Investments in securities:				
Common stocks:				
S&P 500 stocks	\$ 1,207,944	\$ -	\$ -	\$ 1,207,944
Foreign stocks	189,758	-	-	189,758
Mutual funds:				
Intermediate-Term Bond fund	2,725,003	-	-	2,725,003
Large Blend fund	2,158,715	-	-	2,158,715
Foreign Large Blend fund	1,376,377	-	-	1,376,377
Mid-Cap Growth fund	742,148	-	-	742,148
Target Date fund	588,104	-	-	588,104
Multi-Sector Bond fund	435,438	-	-	435,438
Inflation Protected Bond fund	409,249	-	-	409,249
Retirement Income fund	100,001	-	-	100,001
Small Blend fund	10,256	-	-	10,256
Large Growth fund	10,045	-	-	10,045
	<b>\$ 9,953,038</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ 9,953,038</b>
Liabilities:				
Interest rate swap obligation	\$ -	\$ 3,054,093	\$ -	\$ 3,054,093

The Children's Home Society of Florida and Subsidiaries

Notes to Consolidated Financial Statements

Note 6. Fair Value Measurements (Continued)

	2012			
	Fair Value Measurements Using			
	Level 1	Level 2	Level 3	Total
Investments in 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
Corporate bonds	1,141,719	106,496	-	1,248,215
U.S. Government obligations	843,219	159,250	-	1,002,469
	<u>\$ 8,831,779</u>	<u>\$ 265,746</u>	<u>\$ -</u>	<u>\$ 9,097,525</u>
Liabilities:				
Interest rate swap obligation	\$ -	\$ 4,635,941	\$ -	\$ 4,635,941

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.

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

### Notes to Consolidated Financial Statements

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#### Note 7. Accrued Expenses

Accrued expenses consisted of the following at June 30, 2013 and 2012:

	<u>2013</u>	<u>2012</u>
Accrued salaries and benefits	<b>\$ 3,468,955</b>	\$ 3,921,320
Accrued vacation	<b>1,633,301</b>	1,797,843
Other	<b>221,306</b>	162,030
	<b><u>\$ 5,323,562</u></b>	<b><u>\$ 5,881,193</u></b>

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 \$514,187 and \$957,754 at June 30, 2013 and 2012, 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, 2013 and 2012:

	<u>2013</u>	<u>2012</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, 2013). CHS entered into two interest rate swap agreements that fixed the interest rate at 4.39% and 3.20% (see 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>\$ 15,210,000</b>	\$ 15,510,000
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>	750,000
Note payable to the County of Escambia, Florida, to finance construction of transitional housing for homeless pregnant women or women with children. The note is non-interest bearing and matures in January 2023. 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 County of Escambia. 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 Pensacola, Florida.	<b>120,000</b>	-
	<b><u>\$ 17,069,610</u></b>	<b><u>\$ 17,249,610</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, 2013 are as follows:

Year Ending June 30,	Amount
2014	\$ 315,000
2015	335,000
2016	350,000
2017	370,000
2018	385,000
Thereafter	15,314,610
	<u>\$ 17,069,610</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 (\$7,890,000 and \$7,320,000, respectively, at June 30, 2013). 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, 2013). The swap agreements terminate in May 2032 and May 2038, respectively. For the years ended June 30, 2013 and 2012, the interest rate swaps had a total negative fair value of \$3,054,093 and \$4,635,941, respectively, resulting in a gain (loss) of \$1,581,848 and (\$2,194,867), respectively, which is reflected in the accompanying consolidated statements of activities.

At June 30, 2012, CHS had a \$4,000,000 revolving line of credit with a financial institution. Interest was based on the one-month LIBOR interest rate plus 0.60%, paid monthly. The line of credit matured during the year ended June 30, 2013 and was not renewed. There was no outstanding balance on the line of credit at June 30, 2012.

#### 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, 2013 and 2012, no amount has been drawn on the letter of credit. The letter of credit expires on March 31, 2014 (see Note 8).

#### 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 \$2,979,000 and \$3,237,000 for the years ended June 30, 2013 and 2012, 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, 2013 are as follows:

Year Ending June 30,	Amount
2014	\$ 2,880,184
2015	2,612,666
2016	1,765,137
2017	1,535,824
2018	1,077,614
Thereafter	1,481,986
	\$ 11,353,411

#### 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. Principal Life Insurance Company 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.

During the year ended June 30, 2013, lump sum settlement benefit payments resumed and were made in the amount of \$3,006,080. Lump sum settlement benefit payments were made to participants because the total lump sum cash payments exceeded the sum of the service cost and interest cost.

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, 2013, and a statement of the funded status as of June 30, 2013 and 2012:

#### Reconciliation of benefit obligation:

	2013	2012
Accumulated benefit obligation at end of year	\$ 38,659,413	\$ 43,101,729
Change in projected benefit obligation:		
Projected benefit obligation at beginning of year	\$ 43,101,729	\$ 32,169,369
Interest cost	1,537,732	1,688,052
Actuarial (gain) loss	(2,709,428)	10,019,610
Benefit payments	(264,540)	(775,302)
Settlement benefit payments	(3,006,080)	-
<b>Projected benefit obligation at end of year</b>	<b>\$ 38,659,413</b>	<b>\$ 43,101,729</b>

The Children's Home Society of Florida and Subsidiaries

Notes to Consolidated Financial Statements

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

	<u>2013</u>	<u>2012</u>
Change in fair value of plan assets:		
Fair value of plan assets at beginning of year	\$ 27,189,419	\$ 24,632,285
Actual return on plan assets	2,384,722	1,007,451
Employer contributions	1,939,540	2,324,985
Benefit payments	(264,540)	(775,302)
Settlement benefit payments	(3,006,080)	-
<b>Fair value of plan assets at end of year</b>	<b>\$ 28,243,061</b>	<b>\$ 27,189,419</b>
<b>Unfunded status at end of year</b>	<b>\$ (10,416,352)</b>	<b>\$ (15,912,310)</b>

Amounts recognized in the consolidated statements of financial position consisted of the following as of June 30, 2013 and 2012:

	<u>2013</u>	<u>2012</u>
Intangible asset	\$ -	\$ 2,513
Pension liability	(10,416,352)	(15,912,310)
<b>Net liability</b>	<b>\$ (10,416,352)</b>	<b>\$ (15,909,797)</b>

Pension related changes other than net periodic benefit cost for the years ended June 30, 2013 and 2012 are as follows:

	<u>2013</u>	<u>2012</u>
Net actuarial (gain) loss	\$ (2,940,215)	\$ 11,033,022
Amortization of actuarial loss	(1,926,301)	(846,593)
Amount recognized due to settlement	(1,057,060)	-
<b>Pension related changes other than net periodic benefit cost (gain) loss</b>	<b>\$ (5,923,576)</b>	<b>\$ 10,186,429</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, 2013 and 2012:

	<b>2013</b>			
	<b>Fair Value Measurements Using</b>			
	<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>	<b>Total</b>
Equity securities:				
Mutual funds:				
Domestic equities	\$ 11,879,870	\$ -	\$ -	\$ 11,879,870
International equities	2,786,998	-	-	2,786,998
Fixed income	12,989,448	-	-	12,989,448
Government bond fund - separate account	-	586,745	-	586,745
	<b>\$ 27,656,316</b>	<b>\$ 586,745</b>	<b>\$ -</b>	<b>\$ 28,243,061</b>
	<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>

CHS' pension plan weighted-average asset allocations at June 30, 2013 and 2012, by asset category are as follows:

	<b>Target Allocation</b>	<b>Percentage of Plan Assets at June 30,</b>	
	<b>2014</b>	2013	2012
Equity securities	<b>55%</b>	98%	50%
Debt securities	<b>45%</b>	2%	50%
	<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 2013 and 2012 are as follows:

	<u>2013</u>	<u>2012</u>
Interest cost	\$ 1,537,732	\$ 1,688,052
Expected return on plan assets	(2,153,935)	(2,020,863)
Amortization of actuarial loss	1,926,301	846,593
Effect of Settlement	1,057,060	-
<b>Net periodic benefit cost</b>	<b><u>\$ 2,367,158</u></b>	<b><u>\$ 513,782</u></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, 2014 are \$2,100,000.

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

Year Ending June 30,	Amount
2014	\$ 2,210,000
2015	1,820,000
2016	1,970,000
2017	1,940,000
2018	2,180,000
2019 – 2023	13,180,000

## 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:

	<b>2013</b>	2012
Weighted-average assumptions as of June 30:		
Discount rate	<b>4.25%</b>	3.75%
Expected return on plan assets	<b>8.00%</b>	8.00%
Rate of compensation increase	<b>N/A</b>	N/A
	<b>2013</b>	2012
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, 2013</b>	June 30, 2012

Additionally, CHS has a 403(b) thrift plan for eligible employees. Employees may make voluntary contributions up to the federal limits. For eligible employees employed by CHS for less than 10 years, CHS makes matching contributions equal to 50% of employee contributions up to 10% of included compensation. For eligible employees employed by CHS for 10 years or more, CHS makes matching contributions equal to 75% of employee contributions up to 10% of included compensation. Employer contributions vest at 100% after 3 years of service. Employer contributions were approximately \$1,311,000 and \$1,544,000, respectively, for the years ended June 30, 2013 and 2012.

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 \$181,100 and \$95,200, respectively, for the years ended June 30, 2013 and 2012.

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, 2013 and 2012.

#### 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. While the results of this litigation cannot be predicted with certainty, CHS believes that the final outcome of all litigation will not have a material adverse effect on CHS' financial position or results of operations.

## 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, 2013 and 2012, CHS's beneficial interest in the net assets of the Foundation was \$18,736,427 and \$16,410,966, respectively, which is included in the consolidated statements of financial position. The temporarily restricted net assets change in beneficial interest in the net assets of the Foundation was \$2,384,418 and (\$67,241), net of (contributions to the Foundation) distributions to CHS of (\$75,630) and \$454,604, for the years ended June 30, 2013 and 2012, 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 \$(134,587) and \$80,150 for the years ended June 30, 2013 and 2012, 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, 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, the consolidated financial statements of The Children's Home Society of Florida and its subsidiaries, which comprise the consolidated statements of financial position as of June 30, 2013, and the related consolidated statements of activities, functional expenses and cash flows for the years then ended, and the related notes to the consolidated financial statements and have issued our report thereon dated October 31, 2013.

**Internal Control Over Financial Reporting**

In planning and performing our audit of the consolidated financial statements, we considered The Children's Home Society of Florida's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the consolidated 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. Accordingly, we do not express an opinion on the effectiveness of The Children's Home Society of Florida's internal control.

*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 a 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. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit, we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

## **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*.

## **Purpose of this Report**

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of The Children's Home Society of Florida's internal control or on compliance. This report is an integral part of an audit performed in accordance with Government Auditing Standards in considering The Children's Home Society of Florida's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

A handwritten signature in black ink that reads "McGladrey LLP". The signature is written in a cursive, flowing style.

Orlando, Florida  
October 31, 2013