

**CHILDREN'S AID SOCIETY
SOUTHERN PENNSYLVANIA DISTRICT -
CHURCH OF THE BRETHREN**

FINANCIAL REPORT

JUNE 30, 2012

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INDEPENDENT AUDITOR'S REPORT

Board of Directors
Children's Aid Society
Southern Pennsylvania District - Church of the Brethren
New Oxford, Pennsylvania

We have audited the accompanying statements of financial position of Children's Aid Society, Southern Pennsylvania District - Church of the Brethren (Organization) as of June 30, 2012 and 2011, and the related statements of activities, cash flows and functional expenses for the years then ended. These financial statements are the responsibility of the Organization's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes 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 financial statements referred to above present fairly, in all material respects, the financial position of Children's Aid Society, Southern Pennsylvania District - Church of the Brethren as of June 30, 2012 and 2011, and the changes in its net assets and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.



Chambersburg, Pennsylvania
October 15, 2012

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**CHILDREN'S AID SOCIETY
SOUTHERN PENNSYLVANIA DISTRICT - CHURCH OF THE BRETHREN**

**STATEMENTS OF FINANCIAL POSITION
June 30, 2012 and 2011**

ASSETS	2012	2011
Current Assets		
Cash and cash equivalents	\$ 121,250	\$ 62,126
Investments	187,176	183,593
Accounts receivable	52,341	32,670
Contributions receivable	42,650	70,566
Prepaid expenses	2,843	3,308
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Total current assets	406,260	352,263
	<hr/>	<hr/>
Property and Equipment	532,844	557,699
	<hr/>	<hr/>
Beneficial Interest in:		
Perpetual trusts	599,196	620,694
Charitable remainder trusts	19,488	20,473
Endowment funds	365,273	383,964
Other investments	156,174	150,204
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Total assets	\$ 2,079,235	\$ 2,085,297
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See Notes to Financial Statements.

LIABILITIES AND NET ASSETS	2012	2011
Current Liabilities		
Current portion of long-term debt	\$ 6,506	\$ -
Current portion of obligations under trust and annuity agreements	687	667
Notes payable - bank	-	107,448
Accounts payable	7,312	7,954
Accrued expenses	57,437	75,184
Total current liabilities	71,942	191,253
Long-Term Debt - net of current portion	216,993	-
Obligations Under Trust and Annuity Agreements - Net of Current Portion	15,836	16,523
Total liabilities	304,771	207,776
Net Assets		
Unrestricted	882,809	968,003
Temporarily restricted	218,312	214,677
Permanently restricted	673,343	694,841
Total net assets	1,774,464	1,877,521
Total liabilities and net assets	\$ 2,079,235	\$ 2,085,297

**CHILDREN'S AID SOCIETY
SOUTHERN PENNSYLVANIA DISTRICT - CHURCH OF THE BRETHREN**

**STATEMENTS OF ACTIVITIES
Years Ended June 30, 2012 and 2011**

	2012	2011
Changes in Unrestricted Net Assets		
Support and Revenue		
Contributions	\$ 237,918	\$ 250,563
Grants	25,249	35,810
Program service revenue	738,867	564,652
Fundraising proceeds	138,050	114,703
Fundraising direct costs	(33,019)	(13,498)
Investment income	19,806	117,590
Other income	675	53
Total support and revenue	1,127,546	1,069,873
Net Assets Released From Restrictions	42,697	43,031
Total unrestricted support and revenue	1,170,243	1,112,904
Expenses and Losses		
Program services	1,003,697	958,051
Management and general	169,705	158,608
Fundraising	82,035	26,235
Total expenses	1,255,437	1,142,894
Loss on Disposal of Assets	-	(3,191)
Decrease in unrestricted net assets	(85,194)	(33,181)

(Continued)

**CHILDREN'S AID SOCIETY
SOUTHERN PENNSYLVANIA DISTRICT - CHURCH OF THE BRETHREN**

**STATEMENTS OF ACTIVITIES (Continued)
Years Ended June 30, 2012 and 2011**

	2012	2011
Changes in Temporarily Restricted Net Assets		
Contributions and grants	42,650	44,000
Investment income	5,969	5,936
Change in values of split-interest agreements	(2,287)	(387)
Net assets released from restrictions	(42,697)	(43,031)
Increase in temporarily restricted net assets	3,635	6,518
Changes in Permanently Restricted Net Assets		
Net unrealized gains (losses) on perpetual trusts	(21,498)	89,333
Increase (decrease) in permanently restricted net assets	(21,498)	89,333
Increase (decrease) in net assets	(103,057)	62,670
Net Assets:		
Beginning	1,877,521	1,814,851
Ending	<u>\$ 1,774,464</u>	<u>\$ 1,877,521</u>

See Notes to Financial Statements.

**CHILDREN'S AID SOCIETY
SOUTHERN PENNSYLVANIA DISTRICT - CHURCH OF THE BRETHREN**

**STATEMENTS OF CASH FLOWS
Years Ended June 30, 2012 and 2011**

	2012	2011
Cash Flows From Operating Activities		
Increase (decrease) in net assets	\$ (103,057)	\$ 62,670
Adjustments to reconcile increase (decrease) in net assets to net cash used in operating activities		
Depreciation	32,706	34,420
Loss on disposal of assets	-	3,191
Net realized and unrealized (gains) losses on investments	16,958	(24,960)
Net unrealized (gains) losses on perpetual trusts	21,498	(89,333)
Change in values of split-interest agreements	2,287	387
Change in values of other investments	(5,970)	(5,936)
Change in values of endowment funds	6,716	(55,470)
Change in assets and liabilities:		
(Increase) decrease in:		
Accounts receivable	(19,671)	5,981
Contributions receivable	27,916	(1,550)
Prepaid expenses	465	1,937
(Decrease) increase in:		
Accounts payable	(642)	867
Accrued expenses	(17,747)	5,121
Net cash used in operating activities	(38,541)	(62,675)
Cash Flows From Investing Activities		
Purchase of investments	(22,535)	(14,630)
Proceeds from sale of investments	1,994	-
Purchases of property and equipment	(7,851)	(998)
Net cash used in investing activities	(28,392)	(15,628)
Cash Flows From Financing Activities		
Proceeds from long-term debt	225,000	-
Repayments of long-term debt	(1,501)	-
Repayments of obligations under trust and annuity agreements	(1,969)	(1,169)
Net increase in notes payable - bank	(107,448)	32,608
Distributions received from endowment funds	11,975	13,651
Net cash provided by financing activities	126,057	45,090
Net increase (decrease) in cash and cash equivalents	59,124	(33,213)
Cash and Cash Equivalents:		
Beginning	62,126	95,339
Ending	\$ 121,250	\$ 62,126

See Notes to Financial Statements.

**CHILDREN'S AID SOCIETY
SOUTHERN PENNSYLVANIA DISTRICT - CHURCH OF THE BRETHREN**

**STATEMENT OF FUNCTIONAL EXPENSES
Year Ended June 30, 2012**

	Program Services	Management and General	Fundraising	Total
Salaries	\$ 724,962	\$ 61,269	\$ 49,131	\$ 835,362
Payroll taxes	56,776	3,799	3,317	63,892
Employee benefits	58,800	5,578	4,872	69,250
Staff training and development	9,045	13,628	-	22,673
Program services	59,907	6,207	-	66,114
Utilities	23,256	4,489	-	27,745
Repairs and maintenance	12,969	3,483	-	16,452
Office supplies, postage and printing	2,170	13,594	-	15,764
Equipment repairs and maintenance	1,744	126	-	1,870
Telephone	7,366	1,283	-	8,649
Insurance	9,856	4,097	-	13,953
Professional services	7,275	22,516	24,715	54,506
Investment management	-	5,157	-	5,157
Bad debt	-	9,123	-	9,123
Miscellaneous	904	1,926	-	2,830
Interest	-	9,391	-	9,391
Depreciation	28,667	4,039	-	32,706
Total	\$ 1,003,697	\$ 169,705	\$ 82,035	\$ 1,255,437

See Notes to Financial Statements.

**CHILDREN'S AID SOCIETY
SOUTHERN PENNSYLVANIA DISTRICT - CHURCH OF THE BRETHREN**

**STATEMENT OF FUNCTIONAL EXPENSES
Year Ended June 30, 2011**

	Program Services	Management and General	Fundraising	Total
Salaries	\$ 676,166	\$ 76,373	\$ 11,055	\$ 763,594
Payroll taxes	50,189	5,307	342	55,838
Employee benefits	71,443	(268)	310	71,486
Staff training and development	6,903	12,626	-	19,529
Program services	49,549	2,108	-	51,657
Utilities	24,132	5,553	-	29,685
Repairs and maintenance	13,788	2,612	-	16,400
Office supplies, postage and printing	3,102	8,847	-	11,950
Equipment repairs and maintenance	1,106	173	-	1,279
Telephone	7,606	1,167	-	8,774
Insurance	9,621	4,157	-	13,778
Professional services	13,473	24,812	14,528	52,813
Investment management	-	5,083	-	5,083
Bad debt	-	175	-	175
Miscellaneous	1,349	786	-	2,135
Interest	-	4,298	-	4,298
Depreciation	29,623	4,797	-	34,420
Total	\$ 958,051	\$ 158,608	\$ 26,235	\$ 1,142,894

See Notes to Financial Statements.

**CHILDREN'S AID SOCIETY
SOUTHERN PENNSYLVANIA DISTRICT - CHURCH OF THE BRETHREN**

NOTES TO FINANCIAL STATEMENTS

Note 1. Summary of Significant Accounting Policies

Nature of Operations: Children's Aid Society, Southern Pennsylvania District - Church of the Brethren (Organization) was established in 1913 and incorporated under the nonprofit laws of the Commonwealth of Pennsylvania in 1923. The Organization operates programs for children and their families, in stressful situations, including, counseling, parenting education services, and short-term crisis nursery respite care.

Use of Estimates: The preparation of financial statements in conformity with generally accepted accounting principles 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.

Concentrations of Credit Risk: Financial instruments that potentially subject the Organization to concentrations of credit risk consist principally of cash, accounts receivable and investments. The Organization maintains its cash deposits with high credit-quality financial institutions that provide Federal Deposit Insurance Corporation coverage up to \$250,000. The Organization's investment portfolio is managed by the trust department of a commercial bank. Investments are diversified among issuers.

The Organization's accounts receivable consist of unsecured amounts due from program participants and funding sources whose ability to pay is subject to changes in general economic conditions. The Organization performs on-going credit evaluations of its program participants and funding sources and generally does not require collateral. The Organization records an allowance, when necessary, for potential credit losses.

Cash and Cash Equivalents: For purposes of the Statements of Cash Flows, the Organization considers all short-term debt securities purchased with a maturity of three months or less to be cash equivalents.

Investments: Investments in debt securities, equity securities and mutual funds are measured at fair value on a recurring basis. The fair values of investments are based on quoted prices from national security exchanges.

Investment income or loss (including gains and losses on investments, interest, and dividends) is included in the Statements of Activities as increases or decreases in unrestricted net assets unless the income or loss is restricted by donor or law. Dividend income is recorded based upon the ex-dividend date; interest income is recorded as earned on an accrual basis. Changes in fair values are reported as investment gains (losses) in the periods of change. Realized gains and losses on sales of investments are determined on the specific-identification basis.

All investment securities are exposed to various risks such as interest-rate, market, and credit risks. Due to the level of risk associated with certain investment securities, it is at least reasonably possible that changes in the values of investment securities will occur in the near term and such changes could materially affect the amounts reported in the financial statements.

**CHILDREN'S AID SOCIETY
SOUTHERN PENNSYLVANIA DISTRICT - CHURCH OF THE BRETHREN**

NOTES TO FINANCIAL STATEMENTS

Note 1. Summary of Significant Accounting Policies (Continued)

Accounts Receivable: Accounts receivable consists of amounts due from individuals and third-party payers for counseling services. Payments are expected within 30 days from the dates on which services were provided. Outstanding balances are non-interest bearing.

Accounts receivable for counseling services are recorded net of an allowance for expected losses when necessary. The allowance is estimated from historical performance and projections of trends. At June 30, 2012 and 2011, allowances for doubtful accounts weren't necessary.

Balances outstanding over 180 days are considered uncollectible and are charged against the allowance for doubtful accounts.

Promises-to-Give: Unconditional promises-to-give that are expected to be collected within one year are recorded at net realizable value. Unconditional promises-to-give that are expected to be collected in future years are recorded at the present value of their estimated, future cash flows. The discounts on those amounts are computed using risk-free interest rates applicable to the years in which the promises are received. Amortization of the discounts is included in contribution revenue. Conditional promises-to-give are not included as support until conditions are substantially met.

Property and Equipment: Property and equipment are stated at cost less accumulated depreciation. Depreciation is computed using the straight-line method over the estimated useful lives of the assets. Upon retirement or sale, the costs and accumulated depreciation of such assets are removed from the accounts, and any resulting gain or loss is included in the determination of net income. Expenditures for maintenance and repairs which neither materially add to the value of the property nor appreciably prolong estimated useful lives are charged to expense as incurred.

Split-Interest Agreements: Gifts received under the terms of trust or other arrangements in which the Organization has a beneficial interest but is not the sole beneficiary are accounted for as split-interest agreements. Such agreements include perpetual trusts held by third-parties, charitable remainder trusts, and charitable gift annuities. The time period covered by these agreements is expressed either as a specific number of years (or in perpetuity) or as the remaining life or lives of an individual or individuals designated by the donor.

Under such arrangements, the assets are invested and administered by the Organization, a trustee, or a fiscal agent, and distributions are made to beneficiaries during the terms of the agreements. At the end of the said terms, the remaining assets covered by the agreements are either distributed to or retained by either the Organization or other beneficiaries.

In the absence of donor-imposed conditions, the Organization recognizes contribution revenue and related assets and liabilities when irrevocable, split-interest agreements naming the Organization as trustee or fiscal agent are executed or, when the Organization is notified of the agreements' existence, as in cases in which an unrelated third-party (such as a bank) acts as trustee.

**CHILDREN'S AID SOCIETY
SOUTHERN PENNSYLVANIA DISTRICT - CHURCH OF THE BRETHREN**

NOTES TO FINANCIAL STATEMENTS

Note 1. Summary of Significant Accounting Policies (Continued)

Split-Interest Agreements (Continued): Contribution revenues recognized under split-interest agreements are classified as increases in unrestricted, temporarily restricted or permanently restricted net assets based on the donors' instructions in the underlying agreements. During the terms of the agreements, changes in the values of split-interest agreements are recognized in the Statement of Activities as "change in values of split interest agreements" and classified as unrestricted, temporarily restricted or permanently restricted based upon the classifications when the contributions were initially recognized. Upon terminations of the agreements, asset and liability accounts related to the split-interest agreement are closed, and any remaining amounts are recognized as changes in the values of split-interest agreements and classified in the appropriate, net-asset category.

Endowment Funds: The Organization is the beneficiary of certain endowment funds including those established by the Organization on its own behalf and a donor-restricted endowment fund. Net assets associated with the endowment funds are classified and reported based on the existence or absence of donor-imposed restrictions.

The Commonwealth of Pennsylvania has not enacted a version of the Uniform Prudent Management of Institutional Funds Act of 2006 (UPMIFA). Relevant law for reporting of endowment funds is provided in Pa. C.S. Section 5548, *Investment of Trust Funds*. The Board of the Organization has interpreted the Commonwealth of Pennsylvania state law as requiring the preservation of the fair value of the original gift as of the gift date of the donor-restricted endowment fund, absent explicit donor stipulations to the contrary.

The Organization classifies as permanently restricted net assets the original values of gifts donated to the donor-restricted endowment fund. Investment income from the donor-restricted endowment fund is unrestricted and available to support the operations of the Organization. Net appreciation on the donor-restricted endowment fund is reported as a change in unrestricted net assets.

The Organization has established community foundation endowment funds to provide endowments for the benefit of each of its counseling centers. Under these arrangements, the Organization has transferred assets to a third-party recipient and has specified itself as the beneficiary. This type of transfer is considered reciprocal in nature, and thus, does not represent either a contribution to the third-party recipient or an equity transaction.

Under these arrangements, the third-party recipient has retained variance power over contributions received from other donors. Variance power provides the third-party recipient with the discretion to redirect contributions to the benefit of a beneficiary other than that named by the donor. As a result, the Organization does not recognize such contributions until such time as a distribution is received or is unconditionally promised by the third-party recipient.

Investment income from the community foundation endowment funds is recognized as a change in unrestricted net assets. Transfers to and distributions from the endowment funds are recognized as components of change in values of endowment funds.

**CHILDREN'S AID SOCIETY
SOUTHERN PENNSYLVANIA DISTRICT - CHURCH OF THE BRETHREN**

NOTES TO FINANCIAL STATEMENTS

Note 1. Summary of Significant Accounting Policies (Continued)

Support and Revenue: Contributions received and unconditional promises-to-give are measured at their fair values and are reported as increases in net assets. The Organization reports gifts of cash and other assets as restricted support if they are received with donor stipulations that limit the use of the donated assets, or if they are designated as support for future periods. When a donor's restriction expires, that is, when a stipulated time restriction ends or purpose restriction is accomplished, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the Statements of Activities as net assets released from restrictions. Donor-restricted contributions, the restrictions of which are met in the same reporting period, are reported as unrestricted support.

The Organization reports gifts of materials and equipment as unrestricted support unless explicit, donor stipulations specify how the donated assets must be used. Gifts of long-lived assets with explicit restrictions that specify how the assets are to be used and gifts of cash or other assets that must be used to acquire long-lived assets are reported as restricted support. Absent explicit, donor stipulations about how long those long-lived assets must be maintained, the Organization reports expirations of donor restrictions when the donated or acquired long-lived assets are placed in service.

The Organization receives a significant portion of its support under grants from government agencies as discussed in Note 2. Typically, the Organization receives a fee for individual units of service, up to a pre-approved amount, plus any subsequent funding. A significant reduction in the level of government revenue could have an adverse effect on the Organization's activities.

Revenue from fundraising activities or special events, which are not considered on-going, major or central activities of the Organization, is reported in the Statements of Activities, net of direct costs.

Donated Materials and Services: Materials and other assets received as donations are recorded and reflected in the accompanying financial statements at their fair values at the dates of receipt.

Contributed services are reported as contributions at their fair values if such services create or enhance nonfinancial assets, would have been purchased if not provided by donation, require specialized skills, and are provided by individuals possessing such specialized skills.

Compensated Absences: The Organization has accrued a liability for paid time off for vacation, sick, and personal leave available to its employees at year-end. Employees are allowed to carry over unused paid time off earned during the year. If employees accumulate more than 80 hours of unused paid time off for vacation in one year, the excess paid time off, up to a maximum of 1,440 hours, is reserved and can be used only in the case of prolonged illness or other disability. The remaining unused portion for each year may be carried over and accumulated until the employees retire or are otherwise terminated.

**CHILDREN'S AID SOCIETY
SOUTHERN PENNSYLVANIA DISTRICT - CHURCH OF THE BRETHREN**

NOTES TO FINANCIAL STATEMENTS

Note 1. Summary of Significant Accounting Policies (Continued)

Advertising Expense: The Organization expenses advertising costs as incurred.

Income Taxes: The Organization is exempt from Federal income tax under Section 501(c)(3) of the Internal Revenue Code. Consequently, the Organization will not incur any liability for Federal income tax, except for tax arising from unrelated business income.

Management has assessed the Organization's exposure to income taxes at the entity level as a result of uncertain tax positions taken in current and previously-filed tax returns. Examples of uncertain tax positions taken at the entity level include the continuing validity of the Organization's exempt status and the prospect of being subject to the filing requirement for unrelated business income. Presently, management believes that it is more likely than not that the Organization's uncertain tax position will be sustained upon examination, including any appeals and litigation, and consequently, the Organization has no exposure to income tax liabilities arising from uncertain tax positions. The Organization is subject to routine audits by taxing jurisdictions; however, no audits for any tax periods are currently in progress. Management believes the Organization is no longer subject to income tax examinations for years ended prior to June 30, 2009.

Functional Allocation of Expenses: The costs of providing the Organization's various programs and activities have been summarized on a functional basis in the Statements of Functional Expenses. Accordingly, the Organization's expenses have been allocated among the programs and supporting services benefited.

Subsequent Events: In preparing the financial statements, the Organization has evaluated events and transactions for potential recognition or disclosure through October 15, 2012, the date the financial statements were available to be issued. See Note 18 for a discussion of subsequent event noted.

Note 2. Funding

The Organization receives a significant portion of its support under government grants from the U.S. Department of Health and Human Services, passed through the Pennsylvania Department of Public Welfare and the County of York and from the Pennsylvania Medical Assistance Program. For the years ended June 30, 2012 and 2011, 42% and 44%, respectively, of non-investment and fundraising support and revenue was comprised of pass-through government grants.

**CHILDREN'S AID SOCIETY
SOUTHERN PENNSYLVANIA DISTRICT - CHURCH OF THE BRETHREN**

NOTES TO FINANCIAL STATEMENTS

Note 3. Investments

Investments at June 30, 2012 and 2011, consist of the following:

	2012		2011	
	Fair Value	Cost	Fair Value	Cost
Cash and cash equivalents	\$ 7,651	\$ 7,651	\$ 2,492	\$ 2,492
U.S. Government agency obligations	26,697	25,625	27,246	25,625
Corporate obligations	10,381	10,412	10,753	10,412
Mutual funds - equity	229,016	181,138	229,671	178,261
	<u>\$ 273,745</u>	<u>\$ 224,826</u>	<u>\$ 270,162</u>	<u>\$ 216,790</u>

Investments are included in net assets as follows:

	2012	2011
Unrestricted	\$ 187,176	\$ 183,593
Temporarily restricted	12,422	12,422
Permanently restricted	74,147	74,147
	<u>\$ 273,745</u>	<u>\$ 270,162</u>

Income from investments for the years ended June 30, 2012 and 2011, consists of the following:

	2012	2011
Interest and dividends	\$ 6,383	\$ 6,084
Net realized and unrealized gains (losses)	(806)	35,420
	<u>\$ 5,577</u>	<u>\$ 41,504</u>

**CHILDREN'S AID SOCIETY
SOUTHERN PENNSYLVANIA DISTRICT - CHURCH OF THE BRETHREN**

NOTES TO FINANCIAL STATEMENTS

Note 4. Contributions Receivable

Contributions receivable represent unconditional promises-to-give. All amounts are expected to be collected within one year. Contributions receivable at June 30, 2012 and 2011, consist of the following:

	2012	2011
United Way of York County	\$ 41,900	\$ 70,566
United Way of Shippensburg	750	-
	<u>\$ 42,650</u>	<u>\$ 70,566</u>

Contributions receivable are included in net assets as follows:

	2012	2011
Unrestricted	\$ -	\$ 26,566
Temporarily restricted	42,650	44,000
	<u>\$ 42,650</u>	<u>\$ 70,566</u>

Note 5. Property and Equipment

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

	2012	2011
Land	\$ 10,000	\$ 10,000
Building and improvements	885,900	878,933
Office equipment	127,416	131,000
Furniture and fixtures	104,766	105,666
Software	8,768	8,768
	<u>1,136,850</u>	<u>1,134,367</u>
Less accumulated depreciation	(604,006)	(576,668)
	<u>\$ 532,844</u>	<u>\$ 557,699</u>

Depreciation expense was \$32,706 in 2012 and \$34,420 in 2011.

**CHILDREN'S AID SOCIETY
SOUTHERN PENNSYLVANIA DISTRICT - CHURCH OF THE BRETHREN**

NOTES TO FINANCIAL STATEMENTS

Note 6. Beneficial Interest in Perpetual Trusts

The Organization is the beneficiary of several perpetual trusts, which are administered by third-party trustees. Under the terms of these arrangements, the Organization has the irrevocable right to receive the income earned on the trust assets in perpetuity, but it will never receive the assets held in trust. None of the underlying trust agreements place any restrictions on the use of the income. The Organization has recorded its beneficial interest in these trusts at the fair value of the trust assets at the time it was notified of the trusts' existence. The contributions have been recognized as permanently restricted support. Distributions from the trusts are reported as unrestricted investment income. Increases and decreases in the fair values of the trusts' assets are recognized as permanently restricted gains or losses. The fair values of the trusts' assets totaled \$599,196 at June 30, 2012, and \$620,694 at June 30, 2011. Income from the perpetual trusts for the years ended June 30, 2012 and 2011, consists of the following:

	2012	2011
Interest and dividends	\$ 17,178	\$ 16,811
Net unrealized gains (losses)	(21,498)	89,333
	<u>\$ (4,320)</u>	<u>\$ 106,144</u>

Note 7. Charitable Remainder Trusts

The Organization has been named as remainder beneficiary in various charitable remainder trusts. Under these arrangements in which the Organization has been named as Trustee, the Organization recognizes the fair values of the assets received and records a liability to the specified lead beneficiary for the present value of the estimated future payments to be distributed over the beneficiary's life or other specified time period (Note 12). Any differences between the assets and liabilities recognized are recorded as contributions which increase temporarily restricted net assets. Investment income, including realized and unrealized gains and losses, resulting from these arrangements is recognized as a change in temporarily restricted net assets. In instances where the Organization is not the Trustee and does not exercise control over the assets contributed to the trust, the agreements are recognized as beneficial interests in trust. Upon terminations of the agreements, the related assets and liabilities are closed and any remaining balances are reclassified to unrestricted net assets. Assets held in charitable remainder trusts at June 30, 2012 and 2011, consist of the following:

	2012	2011
Trusts in which Children's Aid Society is named as trustee	\$ 12,422	\$ 12,422
Trusts held by third-party trustees	7,066	8,051
	<u>\$ 19,488</u>	<u>\$ 20,473</u>

The underlying assets of the trusts are managed by various trust departments and foundations. Assets are diversified among issuers.

The net increases (decreases) in values of these trusts were \$(985) and \$582 for the years ended 2012 and 2011, respectively.

**CHILDREN'S AID SOCIETY
SOUTHERN PENNSYLVANIA DISTRICT - CHURCH OF THE BRETHREN**

NOTES TO FINANCIAL STATEMENTS

Note 8. Endowment Funds

The Organization's endowment funds at June 30, 2012 and 2011, consist of the following:

	2012	2011
Community Foundations		
York Foundation - The Lehman Center	\$ 119,492	\$ 127,161
York Foundation - The Nicarry Center	116,717	124,131
The Franklin County Foundation - The Frances Leiter Center	54,917	58,525
	<u>291,126</u>	<u>309,817</u>
Donor-restricted endowment fund	74,147	74,147
	<u>\$ 365,273</u>	<u>\$ 383,964</u>

Amounts held in community foundation endowment funds are invested as part of the foundations' general portfolio. Investments are diversified among issuers. During the years ended June 30, 2012 and 2011, the Organization made no transfers to its community foundation endowment funds.

Investment income (loss) from community foundation endowments consists of the following:

	2012	2011
Interest and dividends	\$ 1,268	\$ 1,491
Net realized and unrealized gains	(4,820)	57,148
	<u>\$ (3,552)</u>	<u>\$ 58,639</u>

The York Foundation makes annual distributions to the Organization based on a spending policy of 4.50% of the average market value of the endowment funds' assets over the 12 preceding calendar quarters. The Franklin County Foundation distributes the actual investment earnings of the fund's assets. Distributions from community foundation endowment funds were \$11,975 for the year ended June 30, 2012, and \$13,651, for the year ended June 30, 2011.

The donor-restricted endowment fund is invested along with the Organization's general investment portfolio (Note 3). Investment income is unrestricted.

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NOTES TO FINANCIAL STATEMENTS

Note 8. Endowment Funds (Continued)

Endowment Net Asset Composition by Type of Fund as of June 30, 2012:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Donor-restricted endowment funds	\$ -	\$ -	\$ 74,147	\$ 74,147
Community foundation endowment funds	291,126	-	-	291,126
	<u>\$ 291,126</u>	<u>\$ -</u>	<u>\$ 74,147</u>	<u>\$ 365,273</u>

Changes in Endowment Net Assets for the Fiscal Year Ended June 30, 2012:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets, beginning of year	\$ 309,817	\$ -	\$ 74,147	\$ 383,964
Investment return:				
Investment income	1,268	-	-	1,268
Net appreciation				
Realized	73	-	-	73
Unrealized	(4,893)	-	-	(4,893)
Total investment return	<u>(3,552)</u>	<u>-</u>	<u>-</u>	<u>(3,552)</u>
Contributions	-	-	-	-
Appropriation of endowment assets for expenditures	(11,975)	-	-	(11,975)
Other changes:				
Investment fees	<u>(3,164)</u>	<u>-</u>	<u>-</u>	<u>(3,164)</u>
Endowment net assets, end of year	<u>\$ 291,126</u>	<u>\$ -</u>	<u>\$ 74,147</u>	<u>\$ 365,273</u>

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NOTES TO FINANCIAL STATEMENTS

Note 8. Endowment Funds (Continued)

Endowment Net Asset Composition by Type of Fund as of June 30, 2011:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Donor-restricted endowment funds	\$ -	\$ -	\$ 74,147	\$ 74,147
Community foundation endowment funds	309,817	-	-	309,817
Total endowment net assets	<u>\$ 309,817</u>	<u>\$ -</u>	<u>\$ 74,147</u>	<u>\$ 383,964</u>

Changes in Endowment Net Assets for the Fiscal Year Ended June 30, 2011:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets, beginning of year	\$ 267,998	\$ -	\$ 74,147	\$ 342,145
Investment return:				
Investment income	1,491	-	-	1,491
Net appreciation				
Realized	399	-	-	399
Unrealized	56,749	-	-	56,749
Total investment return	<u>58,639</u>	<u>-</u>	<u>-</u>	<u>58,639</u>
Contributions	-	-	-	-
Appropriation of endowment assets for expenditures	(13,651)	-	-	(13,651)
Other changes:				
Investment fees	<u>(3,169)</u>	<u>-</u>	<u>-</u>	<u>(3,169)</u>
Endowment net assets, end of year	<u>\$ 309,817</u>	<u>\$ -</u>	<u>\$ 74,147</u>	<u>\$ 383,964</u>

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NOTES TO FINANCIAL STATEMENTS

Note 9. Other Investments

The Organization is the owner of cash-value life insurance policies on individuals. Premiums payable under the insurance policies are paid by the insured and recognized as unrestricted contributions by the Organization. The Organization will receive the policies' face values upon the deaths of the insured or the accumulated cash values upon the terminations of the policies. The face values of the insurance policies were \$236,914 at June 30, 2012, and \$235,934 at June 30, 2011. The accumulated cash values of the insurance policies were \$156,174 and \$150,204 at June 30, 2012 and 2011, respectively. Increases in the insurance policies' cash values are accounted for as temporarily restricted investment income. During the years ended June 30, 2012 and 2011, the increase in cash-surrender values of the life insurance contracts were \$5,969 and \$5,936, respectively.

Note 10. Notes Payable - Bank

The Organization has a line-of-credit agreement with Adams County National Bank (ACNB). Advances on the line are payable on demand and bear interest at the Wall Street Prime Rate plus 1.00% (4.25% as of June 30, 2011), with a floor of 4.50%; interest is payable monthly. The line-of-credit is collateralized by the Organization's Investment Management Account held by ACNB. On March 22, 2012, the Organization entered into a Change of Terms Agreement to reduce the available amount of the line-of-credit from \$225,000 to \$50,000. As of June 30, 2012, the Organization had no outstanding advances. As of June 30, 2011, the Organization had outstanding advances of \$107,448. Interest expense related to the line-of-credit was \$6,179 and \$3,158 for the years ended June 30, 2012 and 2011, respectively.

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NOTES TO FINANCIAL STATEMENTS

Note 11. Long-Term Debt

Long-term debt at December 31, 2012 and 2011, consists of the following:

	2012	2011
Note payable, bank, payable in monthly installments of \$1,571 plus interest at 5.60% per annum through April 2019, then monthly installments of \$1,571 including interest of 1.00% above the index rate through March 2032, collateralized by real estate.	\$ 223,499	\$ -
	223,499	-
Less current portion	(6,506)	-
	<u>\$ 216,993</u>	<u>\$ -</u>

In March 2012, the Organization entered into a Business Loan Agreement (Agreement) with Adams County National Bank (ACNB) for \$225,000, to refinance the existing balance on their line-of-credit (Note 10) and to provide funding for an additional therapist. The Agreement requires monthly payments of \$1,571 including interest at 5.60%, commencing April 2012, and is collateralized by real estate. Interest expense related to the mortgage was \$3,212 for the year ended June 30, 2012.

Future maturities of long-term debt are as follows:

Years	Amount
2013	\$ 6,506
2014	6,880
2015	7,275
2016	7,693
2017	8,135
Thereafter	187,010
	<u>\$ 223,499</u>

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NOTES TO FINANCIAL STATEMENTS

Note 12. Obligations Under Trust and Annuity Agreements

The Organization has entered into agreements with donors in which the donors have contributed assets to the Organization in exchange for a promise by the Organization to pay a fixed amount for a specified period of time to the donors or other designated beneficiaries. These arrangements include charitable remainder trusts and gift annuities. Assets received under charitable remainder trusts are held by a trust. Assets received under charitable gift annuities are held as general assets of the Organization. However, state regulations require that a certain percentage of the outstanding annuity liability be maintained as a minimum reserve for protection of the annuitants. A corresponding annuity liability is recognized at the present value of the estimated future payments to be made to the donors. Any differences between the assets and liabilities recognized are recorded as unrestricted contributions. Changes in the present values of the estimated future payments to be made to the donors that result from amortization of discounts or changes in actuarial assumptions are recognized in the Statements of Activities as change in values of split-interest agreements in temporarily restricted net assets. Upon terminations of the agreements, the related assets and liabilities are closed and any remaining balances are reclassified to unrestricted net assets.

Obligations under trust and annuity agreements at June 30, 2012 and 2011, consist of the following:

	2012	2011
Charitable gift annuities	\$ 16,523	\$ 17,190
Less current portion	(687)	(667)
Long-term portion	<u>\$ 15,836</u>	<u>\$ 16,523</u>

Expected future annuity payments are as follows:

Years	Amount
2013	\$ 687
2014	708
2015	729
2016	752
2017	774
Thereafter	12,873
	<u>\$ 16,523</u>

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NOTES TO FINANCIAL STATEMENTS

Note 13. Fair Value Measurements

The Organization follows the provisions of the *Accounting Standards Codification (ASC) 820, Fair Value Measurements and Disclosures*, for fair-value measurements of financial assets and financial liabilities. ASC 820 defines fair value as 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 Organization's financial assets that are recorded at fair value on a recurring basis consist of investments in marketable securities, beneficial interests in perpetual trusts and charitable remainder trusts, endowment funds and the cash values of life insurance policies. The Organization's financial liabilities consist of obligations under trust and annuity agreements which approximate fair value. The Organization has no non-financial items that are recognized and disclosed at their fair values on a recurring basis.

ASC 820 establishes a three-level, fair-value hierarchy that describes the inputs that are used to measure the fair values of respective assets and liabilities:

Level 1: fair values are based on quoted prices in active markets for identical assets and liabilities.

Level 2: fair values are based on other significant observable inputs that include: quoted market prices for similar assets or liabilities; quoted market prices that are not in an active market; or other inputs that are observable in the market and can be corroborated by observable market data for substantially the full terms of the assets.

Level 3: fair values are calculated by the use of price models and/or discounted, cash-flow methodologies, and may require significant management judgment or estimation. These methodologies may result in a significant portion of the fair values being derived from unobservable data.

The following tables set forth, by level within the fair-value hierarchy, the Organization's financial assets at fair value as of June 30, 2012 and 2011:

Financial Assets at Fair Value as of June 30, 2012

	Level 1	Level 2	Level 3	Total
Investments	\$ 273,745	\$ -	\$ -	\$ 273,745
Perpetual trusts	599,196	-	-	599,196
Charitable remainder trusts	19,488	-	-	19,488
Endowment funds	365,273	-	-	365,273
Cash value of life insurance contracts	-	156,174	-	156,174
	<u>\$1,257,702</u>	<u>\$ 156,174</u>	<u>\$ -</u>	<u>\$1,413,876</u>

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NOTES TO FINANCIAL STATEMENTS

Note 13. Fair Value Measurements (Continued)

Financial Assets at Fair Value as of June 30, 2011

	Level 1	Level 2	Level 3	Total
Investments	\$ 270,162	\$ -	\$ -	\$ 270,162
Perpetual trusts	620,694	-	-	620,694
Charitable remainder trusts	20,473	-	-	20,473
Endowment funds	383,964	-	-	383,964
Cash value of life insurance contracts	-	150,204	-	150,204
	<u>\$ 1,295,293</u>	<u>\$ 150,204</u>	<u>\$ -</u>	<u>\$ 1,445,497</u>

Note 14. Net Assets

Temporarily restricted net assets represent amounts received with donor-imposed restrictions for a specific purpose or for use in future periods. Temporarily restricted net assets are available for the following purposes or periods:

	2012	2011
For future periods	\$ 42,650	\$ 44,000
Charitable remainder trusts	19,488	20,473
Cash value of life insurance contracts	156,174	150,204
	<u>\$ 218,312</u>	<u>\$ 214,677</u>

Permanently restricted net assets at June 30, 2012 and 2011, consist of the following:

	2012	2011
Beneficial interests in perpetual trusts	\$ 599,196	\$ 620,694
Donor-restricted endowment funds	74,147	74,147
	<u>\$ 673,343</u>	<u>\$ 694,841</u>

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NOTES TO FINANCIAL STATEMENTS

Note 15. Fundraising Activities

The Organization conducts fundraising activities throughout the year to help support its program services. For the years ended June 30, 2012 and 2011, gross revenues and the related direct costs of special events and fundraising activities were as follows:

	2012	2011
Fundraising proceeds	\$ 138,050	\$ 114,703
Fundraising direct costs	(33,019)	(13,498)
	<u>\$ 105,031</u>	<u>\$ 101,205</u>

Note 16. Retirement Plan

The Organization sponsors a defined-contribution retirement plan that is available for substantially all employees. Participating employees are required to contribute 2.00% of their compensation which is matched by the Organization contributing 2.00% of the participating employees' compensation.

Retirement plan expense for the years ended June 30, 2012 and 2011, was \$10,839 and \$11,308, respectively.

Note 17. Statements of Cash Flows

Interest paid was \$9,391 in 2012 and \$4,298 in 2011.

Note 18. Subsequent Event

In September 2012, the Organization was notified that it is the beneficiary of a \$50,000 grant for its Children's Healing Garden project with the condition that the project be named on behalf of the donor.