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**The Children's Protective Service of the Ohio  
Humane Society  
dba FamiliesFORWARD**

Financial Statements

December 31, 2012 and 2011

(with Independent Auditors' Report)



**CLARK SCHAEFER HACKETT**  
STRENGTH IN NUMBERS

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## INDEPENDENT AUDITORS' REPORT

The Board of Trustees

The Children's Protective Service of the Ohio Humane Society dba FamiliesFORWARD:

### **Report on the Financial Statements**

We have audited the accompanying financial statements of The Children's Protective Service of the Ohio Humane Society dba FamiliesFORWARD (a not-for-profit organization) which comprise the statements of financial position as of December 31, 2012 and 2011, and the related statements of activities, functional expenses, and cash flows for the years then ended, and the related notes to the financial statements.

### **Management's Responsibility for the Financial Statements**

Management is responsible for the preparation and fair presentation of these 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 financial statements that are free from material misstatement, whether due to fraud or error.

### **Auditors' Responsibility**

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the 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 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 financial statements.

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

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**Opinion**

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of The Children's Protective Service of the Ohio Humane Society dba FamiliesFORWARD as of December 31, 2012 and 2011, and the results of its operations and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

*Clark, Schaffer, Hackett + Co.*

Cincinnati, Ohio  
June 26, 2013

The Children's Protective Service of the Ohio Humane Society  
 dba FamiliesFORWARD  
 Statements of Financial Position  
 December 31, 2012 and 2011

	<u>2012</u>	<u>2011</u>
<b>Assets:</b>		
Cash	\$ 88,827	82,308
Contributions receivable - United Way	530,000	557,750
Accounts receivable	64,528	60,914
Investments	2,020,716	1,970,088
Equipment, net	6,018	8,107
Other	1,023	1,023
Interest in perpetual trust	<u>156,231</u>	<u>156,337</u>
	<b>\$ <u>2,867,343</u></b>	<b><u>2,836,527</u></b>
<b>Liabilities:</b>		
Accounts payable	\$ 20,319	11,530
Accrued expenses	66,411	55,228
Deferred compensation	<u>-</u>	<u>11,745</u>
	<u>86,730</u>	<u>78,503</u>
<b>Net assets:</b>		
Unrestricted	2,094,382	2,043,937
Temporarily restricted	530,000	557,750
Permanently restricted	<u>156,231</u>	<u>156,337</u>
	<u>2,780,613</u>	<u>2,758,024</u>
	<b>\$ <u>2,867,343</u></b>	<b><u>2,836,527</u></b>

See accompanying notes to the financial statements.

The Children's Protective Service of the Ohio Humane Society  
 dba FamiliesFORWARD  
 Statement of Activities  
 Year Ended December 31, 2012

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Public support and revenue:				
Contributions receivable - United Way	\$ -	530,000	-	530,000
Contributions and grants	250,519	-	-	250,519
Program service fees	607,998	-	-	607,998
Investment income	83,965	-	-	83,965
Realized and unrealized gain on investments	168,663	-	-	168,663
Change in value of perpetual trust	-	-	(106)	(106)
Satisfaction of restrictions	<u>557,750</u>	<u>(557,750)</u>	<u>-</u>	<u>-</u>
 Total public support and revenue	 <u>1,668,895</u>	 <u>(27,750)</u>	 <u>(106)</u>	 <u>1,641,039</u>
Expenses:				
Family services	1,369,855	-	-	1,369,855
Management and general	224,207	-	-	224,207
Fundraising	<u>24,388</u>	<u>-</u>	<u>-</u>	<u>24,388</u>
 Total expenses	 <u>1,618,450</u>	 <u>-</u>	 <u>-</u>	 <u>1,618,450</u>
 Change in net assets	 50,445	 (27,750)	 (106)	 22,589
 Net assets at beginning of year	 <u>2,043,937</u>	 <u>557,750</u>	 <u>156,337</u>	 <u>2,758,024</u>
 Net assets at end of year	 \$ <u>2,094,382</u>	 <u>530,000</u>	 <u>156,231</u>	 <u>2,780,613</u>

See accompanying notes to the financial statements.

The Children's Protective Service of the Ohio Humane Society  
 dba FamiliesFORWARD  
 Statement of Activities  
 Year Ended December 31, 2011

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Public support and revenue:				
Contributions receivable - United Way	\$ 345	557,750	-	558,095
Contributions and grants	133,818	-	-	133,818
Program service fees	506,129	-	-	506,129
Investment income	86,571	-	-	86,571
Realized and unrealized gain on investments	64,039	-	-	64,039
Change in value of perpetual trust	-	-	(12,506)	(12,506)
Satisfaction of restrictions	<u>557,750</u>	<u>(557,750)</u>	<u>-</u>	<u>-</u>
Total public support and revenue	<u>1,348,652</u>	<u>-</u>	<u>(12,506)</u>	<u>1,336,146</u>
Expenses:				
Family services	1,235,108	-	-	1,235,108
Management and general	214,258	-	-	214,258
Fundraising	<u>23,906</u>	<u>-</u>	<u>-</u>	<u>23,906</u>
Total expenses	<u>1,473,272</u>	<u>-</u>	<u>-</u>	<u>1,473,272</u>
Change in net assets	(124,620)	-	(12,506)	(137,126)
Net assets at beginning of year	<u>2,168,557</u>	<u>557,750</u>	<u>168,843</u>	<u>2,895,150</u>
Net assets at end of year	\$ <u>2,043,937</u>	<u>557,750</u>	<u>156,337</u>	<u>2,758,024</u>

The Children's Protective Service of the Ohio Humane Society  
 dba FamiliesFORWARD  
 Statement of Functional Expenses  
 Year Ended December 31, 2012

	<u>Family Services</u>	<u>Management and General</u>	<u>Fundraising</u>	<u>Total Expenses</u>
Salaries	\$ 908,722	94,229	20,071	1,023,022
Employee benefits	87,381	9,061	1,929	98,371
Payroll taxes	<u>73,729</u>	<u>7,645</u>	<u>1,629</u>	<u>83,003</u>
Total salaries and related expenses	1,069,832	110,935	23,629	1,204,396
Professional fees	120,355	84,017	-	204,372
Travel	1,291	24	-	1,315
Occupancy	30,549	3,394	-	33,943
Telephone	11,851	1,317	-	13,168
Supplies	67,906	17,024	-	84,930
Insurance	10,473	1,164	-	11,637
Postage	3,333	370	-	3,703
Family assistance	6,630	-	-	6,630
Equipment maintenance and rental	22,524	2,503	-	25,027
Staff education	8,976	2,729	-	11,705
Art concerts and performances	4,387	-	-	4,387
Marketing	2,655	379	759	3,793
Dues and subscriptions	1,283	142	-	1,425
Miscellaneous	<u>5,930</u>	<u>-</u>	<u>-</u>	<u>5,930</u>
	1,367,975	223,998	24,388	1,616,361
Depreciation	<u>1,880</u>	<u>209</u>	<u>-</u>	<u>2,089</u>
Total expenses	\$ <u>1,369,855</u>	<u>224,207</u>	<u>24,388</u>	<u>1,618,450</u>

See accompanying notes to the financial statements.



The Children's Protective Service of the Ohio Humane Society  
 dba FamiliesFORWARD  
 Statement of Functional Expenses  
 Year Ended December 31, 2011

	<u>Family Services</u>	<u>Management and General</u>	<u>Fundraising</u>	<u>Total Expenses</u>
Salaries	\$ 772,656	89,580	19,002	881,238
Employee benefits	102,807	11,919	2,529	117,255
Payroll taxes	<u>66,594</u>	<u>7,721</u>	<u>1,638</u>	<u>75,953</u>
Total salaries and related expenses	942,057	109,220	23,169	1,074,446
Professional fees	113,673	77,962	-	191,635
Travel	1,878	15	-	1,893
Occupancy	26,934	2,993	-	29,927
Telephone	9,760	1,084	-	10,844
Supplies	73,661	16,893	-	90,554
Insurance	10,432	1,159	-	11,591
Postage	2,335	259	-	2,594
Family assistance	3,413	-	-	3,413
Equipment maintenance and rental	18,508	2,056	-	20,564
Staff education	4,466	1,848	-	6,314
Art concerts and performances	4,570	-	-	4,570
Marketing	2,581	369	737	3,687
Due and subscriptions	1,332	148	-	1,480
Miscellaneous	<u>17,237</u>	<u>-</u>	<u>-</u>	<u>17,237</u>
	1,232,837	214,006	23,906	1,470,749
Depreciation	<u>2,271</u>	<u>252</u>	<u>-</u>	<u>2,523</u>
Total expenses	\$ <u>1,235,108</u>	<u>214,258</u>	<u>23,906</u>	<u>1,473,272</u>

See accompanying notes to the financial statements.

The Children's Protective Service of the Ohio Humane Society  
 dba FamiliesFORWARD  
 Statements of Cash Flows  
 Years Ended December 31, 2012 and 2011

	<u>2012</u>	<u>2011</u>
Cash flows from operating activities:		
Change in net assets	\$ 22,589	(137,126)
Adjustments to reconcile change in net assets to net cash used by operating activities:		
Depreciation	2,089	2,523
Net unrealized and realized gain on investments	(168,663)	(64,039)
Change in value of perpetual trust	106	12,506
Effect of change in operating assets and liabilities:		
Contributions receivable - United Way	27,750	-
Accounts receivable	(3,614)	15,042
Accounts payable	8,789	(4,627)
Accrued expenses	11,183	4,850
Deferred compensation	<u>(11,745)</u>	<u>(10,544)</u>
Net cash used by operating activities	<u>(111,516)</u>	<u>(181,415)</u>
Cash flows from investing activities:		
Purchase of equipment	-	(6,365)
Proceeds from sale of investments	202,000	183,000
Purchase of investments	<u>(83,965)</u>	<u>(86,571)</u>
Net cash provided by investing activities	<u>118,035</u>	<u>90,064</u>
Change in cash	6,519	(91,351)
Cash - beginning of year	<u>82,308</u>	<u>173,659</u>
Cash - end of year	\$ <u>88,827</u>	<u>82,308</u>

See accompanying notes to the financial statements.

## **1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:**

The following accounting principles and practices of The Children's Protective Service of the Ohio Humane Society dba FamiliesFORWARD ("Agency") are set forth to facilitate the understanding of data presented in the financial statements.

### **Nature of operations**

The Agency is a not-for-profit corporation organized to help children develop into responsible, self-sufficient, and productive citizens in Cincinnati, Ohio. The Agency provides family centered and community based programs that promote education, social development, and safety.

### **Financial statement presentation**

The Agency reports information regarding its financial position and activities according to three classes of net assets: unrestricted net assets which have no donor-imposed restrictions; temporarily restricted net assets which have donor-imposed restrictions that will likely expire in the future; and permanently restricted net assets which have donor-imposed restrictions which do not expire.

### **Estimates**

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Actual results could differ from those estimates.

### **Income taxes**

For Federal tax purposes, the Agency is an exempt organization under Section 501(c)(3) of the Internal Revenue Code. It has been determined that the Agency is not a private foundation.

### **Accounting for uncertainty in income taxes**

The Agency has adopted the provisions of FASB ASC 740-10-25, which requires that a tax position be recognized or derecognized based on a "more likely than not" threshold. This applies to positions taken or expected to be taken in a tax return. The Organization does not believe its financial statements include any uncertain tax positions.

The Agency's income tax filings are subject to audit by various taxing authorities. The years of filings open to these authorities and available for audit are 2009, 2010 and 2011. The Agency's policy with regards to interest and penalties is to recognize interest through interest expense and penalties through other expense.

### **Accounts receivable**

The Agency carries its receivables at cost less an allowance for doubtful accounts. On a periodic basis, the Agency evaluates its accounts receivable and establishes an allowance for doubtful accounts, based on a history of past write-offs and collections and current credit conditions. All receivables are considered fully collectible by management. Therefore, no allowance for doubtful accounts has been provided in the financial statements.

**Investments**

The Agency reports investments at fair value in the statements of financial position. Donated investments are recorded at their fair value at the time of donation. Unrealized and realized gains and losses are included in the statements of activities.

**Equipment and depreciation**

The Agency follows the practice of capitalizing all expenditures for equipment in excess of \$1,000. Equipment is stated at cost except for contributed items, which are recorded at the fair value on the date of the gift. Depreciation is provided on the straight-line method over the estimated useful lives (5-10 years) of the assets.

**Contributions**

Contributions without donor stipulations concerning the use of such assets are reported as revenues of the unrestricted net asset class. Contributions to be used in accordance with donor stipulations are reported as revenues of the temporarily or permanently restricted net asset classes. Temporarily restricted contributions whose restrictions are met in the same period as the contribution are reported as unrestricted support.

**Functional allocation of expenses**

The costs of providing the various programs and activities have been summarized on a functional basis in the statement of activities and statement of functional expenses. Certain costs have been allocated among the programs and supporting services benefited.

**Subsequent events**

The Agency evaluates events and transactions occurring subsequent to the date of the financial statements for matters requiring recognition or disclosure in the financial statements. The accompanying financial statements consider events through June 26, 2013, the date on which the financial statements were available to be issued.

**2. CONTRIBUTION RECEIVABLE – UNITED WAY:**

The Agency has recorded a contribution receivable from United Way at December 31, 2012 and 2011 representing the funds that will be received during the subsequent year.

**3. EQUIPMENT:**

Equipment is summarized as follows at December 31:

	<u>2012</u>	<u>2011</u>
Furniture and fixtures	\$ 26,705	26,705
Less accumulated depreciation	<u>20,687</u>	<u>18,598</u>
	\$ <u>6,018</u>	<u>8,107</u>

**4. INTEREST IN PERPETUAL TRUST:**

The Agency has an interest in a perpetual trust held by others. The Agency has legally enforceable rights or claims to such assets, including the right to trust income. Contributions from the trust have been recorded at their net present value and are reported as unrestricted income based on the provisions of the trust documents. The change in fair value of the trust assets is reported on the statement of activities as permanently restricted. The fair value of the interest in perpetual trust at December 31, 2012 and 2011 was \$156,231 and \$156,337, respectively.

**5. TEMPORARILY RESTRICTED NET ASSETS:**

Temporarily restricted net assets consist of contributions receivable from United Way of \$530,000 and \$557,750 at December 31, 2012 and 2011, respectively. Net assets released from restriction during 2012 and 2011 were \$557,750.

**6. PERMANENTLY RESTRICTED NET ASSETS:**

Permanently restricted net assets consist of an interest in a perpetual trust of \$156,231 and \$156,337, respectively, as of December 31, 2012 and 2011.

**7. RETIREMENT AND COMPENSATION PLANS:**

**Retirement plan**

The Agency has a defined contribution plan in which an eligible employee may immediately participate upon hire. The plan requires the Agency to contribute 4% of the employee's eligible compensation for the plan year. Employer contributions of up to an additional 4% of eligible employees' compensation are also permitted, at the discretion of the Agency's board of trustees. The Agency contributed 6% of employees' compensation during 2012 and 2011.

Under this plan, retirement benefits included in the statements of functional expenses for 2012 and 2011 were \$20,939 and \$29,945, respectively.

**Deferred compensation plan**

The Agency had a nonqualified deferred compensation plan covering the former president of the Agency. Under the plan, the former president could elect annually to defer compensation under prescribed limits. In addition to the deferred salary, the Agency accrued expense equal to 6% of the annual deferral plus an imputed return on the accumulated balance of the annual deferrals. The return was based on a hypothetical portfolio of mutual funds selected by the president at the beginning of each year.

The plan was unfunded and benefits were paid out over a 60 month period beginning January 1, 2008. The final distribution was made during 2012.

**8. LEASE COMMITMENT:**

The Agency leases office facilities primarily from the United Way under an operating lease that expires in December 2013. Total rent expense, including other facility expense for 2012 and 2011 was \$33,943 and \$29,927, respectively.

In addition, the Agency leases office equipment under an operating lease that expired in May 2013 and is now leased on a monthly basis. Office equipment expense for 2012 and 2011 was \$3,912 in each year. Future minimum lease expense for the office facility and equipment for 2013 is \$36,292.

**9. CONCENTRATION OF RISK:**

Approximately 69% and 79% of the Agency's unrestricted and temporarily restricted support and program revenue for the years ending December 31, 2012 and 2011, respectively, came from contributions and program support from three organizations. The Agency is economically dependent on support from these organizations.

**10. ENDOWMENT FUNDS:**

Generally accepted accounting principles ("GAAP") require that the net assets associated with endowment funds, including funds designated by the Board of Trustees to function as endowments, are classified and reported based on the existence or absence of donor-imposed restrictions. The Agency's endowment consists of a fund established to provide investment returns to the Agency. The endowment is a board-designated endowment.

The board designated endowment has a balance of \$2,020,716 and \$1,970,088 at December 31, 2012 and 2011, respectively.

Changes in endowment net assets are as follows for the years ended December 31:

	2012	2011
	<u>Unrestricted</u>	<u>Unrestricted</u>
Endowment net assets at beginning of year	\$ 1,970,088	2,002,478
Interest and dividend income	83,965	86,571
Realized and unrealized gain on investments	168,663	64,039
Appropriated for expenditures	<u>(202,000)</u>	<u>(183,000)</u>
Endowment net assets at end of year	\$ <u>2,020,716</u>	<u>1,970,088</u>

**Return objectives and risk parameters**

The Agency has adopted investment and spending policies for its board designated endowment fund to help ensure the long term financial viability of the Agency and its ability to achieve its mission and to deliver its programs into the future. The endowment should provide modest growth of capital and provide income with undue exposure to risk. The performance objectives will be measured against appropriate industry benchmarks such as the S & P 500 Index.

**Strategies employed for achieving objectives**

To satisfy its long-term rate-of-return objectives, the Agency relies on a total return strategy in which investment returns are achieved through both capital appreciation (realized and unrealized) and current yield (interest and dividends). The Agency targets a diversified asset allocation that places a greater emphasis on equity-based investments to achieve its long-term return objectives within prudent risk constraints.

**Spending policy and how the investment objectives relate to spending policy**

The Agency has a policy of appropriating for distribution each year four percent of the average market value over the last three years. In establishing this policy, the Agency considered the long-term expected return on its endowment. Accordingly, this spending policy should, over time, protect the inflation-adjusted value of the endowment and, consequently, allow inflation-adjusted spending to occur into the distant future. This is consistent with the Agency's objective to maintain the purchasing power of the assets held in perpetuity or for a specified term as well as to provide additional real growth through new gifts and investment return.

**11. FAIR VALUE MEASURES:**

Generally accepted accounting principles define fair value, establish a framework for measuring fair value, and establish a fair value hierarchy that prioritizes the inputs to valuation techniques. 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. A fair value measurement assumes that the transaction to sell the asset or transfer the liability occurs in the principal market for the asset or liability or, in the absence of a principal market, the most advantageous market. Valuation techniques that are consistent with the market, income or cost approach are used to measure fair value.

Fair value methods and assumptions on investments in mutual funds are based on the Level 1 market approach. The interest in perpetual trust is valued on Level 3 inputs based on the underlying investments in the trust, as provided by the trust's custodians, without adjustment by management.

The following tables present the Agency's fair value hierarchy for those assets and liabilities measured at fair value on a recurring basis as of December 31, 2012 and 2011.

	<u>Fair Value Measurements at Reporting Date Using</u>			
		<u>Quoted Prices</u>		
		<u>in Active</u>	<u>Significant</u>	<u>Significant</u>
		<u>Markets for</u>	<u>Other</u>	<u>Unobservable</u>
		<u>Identical</u>	<u>Observable</u>	<u>Inputs</u>
		<u>Assets</u>	<u>Inputs</u>	<u>Inputs</u>
	<u>Total</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>
<u>December 31, 2012</u>				
Investments – mutual funds:				
Large blend	\$ 627,408	627,408	-	-
Large value	299,634	299,634	-	-
Short-term bond fund	10,764	10,764	-	-
Intermediate-term bond fund	530,240	530,240	-	-
Long-term bond fund	<u>552,670</u>	<u>552,670</u>	<u>-</u>	<u>-</u>
	\$ <u>2,020,716</u>	<u>2,020,716</u>	<u>-</u>	<u>-</u>
Interest in perpetual trust	\$ <u>156,231</u>	<u>-</u>	<u>-</u>	<u>156,231</u>

The Children's Protective Service of the Ohio Humane Society  
 dba FamiliesFORWARD  
 Notes to the Financial Statements  
 December 31, 2012 and 2011

	<u>Fair Value Measurements at Reporting Date Using</u>			
	<u>Quoted Prices</u>	<u>in Active</u>	<u>Significant</u>	<u>Significant</u>
		<u>Markets for</u>	<u>Other</u>	<u>Unobservable</u>
		<u>Identical</u>	<u>Observable</u>	<u>Inputs</u>
		<u>Assets</u>	<u>Inputs</u>	<u>Level 3</u>
	<u>Total</u>	<u>Level 1</u>	<u>Level 2</u>	
<u>December 31, 2011</u>				
Investments – mutual funds:				
Large blend	\$ 610,964	610,964	-	-
Large value	281,188	281,188	-	-
Short-term bond fund	14,566	14,566	-	-
Intermediate-term bond fund	517,917	517,917	-	-
Long-term bond fund	<u>545,453</u>	<u>545,453</u>	-	-
	\$ <u>1,970,008</u>	<u>1,970,008</u>	-	-
Interest in perpetual trust	\$ <u>156,337</u>	-	-	<u>156,337</u>

The following is a reconciliation for the Agency's assets valued at Level 3 inputs for the years ended December 31:

	<u>2012</u>	<u>2011</u>
Balance at beginning of year	\$ 156,337	168,843
Change in value of perpetual trust	<u>(106)</u>	<u>(12,506)</u>
Balance at end of year	\$ <u>156,231</u>	<u>156,337</u>