

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

Financial Statements
December 31, 2009 and 2008
(with Independent Auditors' Report)



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INDEPENDENT AUDITORS' REPORT

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

We have audited the accompanying statements of financial position of The Children's Protective Service of the Ohio Humane Society dba FamiliesFORWARD (a not-for-profit organization) as of December 31, 2009 and 2008, and the related statements of activities, functional expenses, and cash flows for the years then ended. These financial statements are the responsibility of The Children's Protective Service of the Ohio Humane Society dba FamiliesFORWARD'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 audits to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the 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, 2009 and 2008, and the results of its operations and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

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July 30, 2010

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The Children's Protective Service of the Ohio Humane Society
 dba FamiliesFORWARD
 Statements of Financial Position
 December 31, 2009 and 2008

	<u>2009</u>	<u>2008</u>
Assets:		
Cash	\$ 307,033	263,502
Contributions receivable - United Way	575,000	580,540
Accounts receivable	86,793	91,479
Investments	1,880,573	1,612,705
Equipment, net	5,875	6,815
Other	1,023	1,023
Interest in perpetual trust	<u>158,192</u>	<u>139,643</u>
	<u>\$ 3,014,489</u>	<u>2,695,707</u>
Liabilities:		
Accounts payable	\$ 25,947	23,661
Accrued expenses	64,119	26,597
Deferred compensation	<u>31,558</u>	<u>39,599</u>
	<u>121,624</u>	<u>89,857</u>
Net assets:		
Unrestricted	2,159,673	1,885,667
Temporarily restricted	575,000	580,540
Permanently restricted	<u>158,192</u>	<u>139,643</u>
	<u>2,892,865</u>	<u>2,605,850</u>
	<u>\$ 3,014,489</u>	<u>2,695,707</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, 2009

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Public support and revenue:				
Contributions receivable - United Way	\$ 7,552	575,000	-	582,552
Contributions and grants	163,963	-	-	163,963
Program service fees	526,365	-	-	526,365
Investment income	76,788	-	-	76,788
Net realized gain on sale of investments	14,454	-	-	14,454
Unrealized gain on investments	232,721	-	-	232,721
Change in value of perpetual trust	-	-	18,549	18,549
Satisfaction of restrictions	<u>580,540</u>	<u>(580,540)</u>	<u>-</u>	<u>-</u>
Total public support and revenue	<u>1,602,383</u>	<u>(5,540)</u>	<u>18,549</u>	<u>1,615,392</u>
Expenses:				
Family services	1,165,604	-	-	1,165,604
Management and general	136,432	-	-	136,432
Fundraising	<u>26,341</u>	<u>-</u>	<u>-</u>	<u>26,341</u>
Total expenses	<u>1,328,377</u>	<u>-</u>	<u>-</u>	<u>1,328,377</u>
Change in net assets	274,006	(5,540)	18,549	287,015
Net assets at beginning of year	<u>1,885,667</u>	<u>580,540</u>	<u>139,643</u>	<u>2,605,850</u>
Net assets at end of year	\$ <u>2,159,673</u>	<u>575,000</u>	<u>158,192</u>	<u>2,892,865</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, 2008

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Public support and revenue:				
Contributions receivable - United Way	\$ 1,080	580,540	-	581,620
Contributions and grants	196,709	-	-	196,709
Program service fees	477,608	-	-	477,608
Investment income	79,424	-	-	79,424
Net realized loss on sale of investments	(43,146)	-	-	(43,146)
Unrealized loss on investments	(476,933)	-	-	(476,933)
Change in value of perpetual trust	-	-	(59,464)	(59,464)
Satisfaction of restrictions	<u>619,250</u>	<u>(619,250)</u>	<u>-</u>	<u>-</u>
Total public support and revenue	<u>853,992</u>	<u>(38,710)</u>	<u>(59,464)</u>	<u>755,818</u>
Expenses:				
Family services	1,180,011	-	-	1,180,011
Management and general	164,721	-	-	164,721
Fundraising	<u>23,649</u>	<u>-</u>	<u>-</u>	<u>23,649</u>
Total expenses	<u>1,368,381</u>	<u>-</u>	<u>-</u>	<u>1,368,381</u>
Change in net assets	(514,389)	(38,710)	(59,464)	(612,563)
Net assets at beginning of year	<u>2,400,056</u>	<u>619,250</u>	<u>199,107</u>	<u>3,218,413</u>
Net assets at end of year	\$ <u>1,885,667</u>	<u>580,540</u>	<u>139,643</u>	<u>2,605,850</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, 2009

	<u>Family Services</u>	<u>Management and General</u>	<u>Fundraising</u>	<u>Total Expenses</u>
Salaries	\$ 701,075	76,350	20,888	798,313
Employee benefits	103,919	11,318	3,096	118,333
Payroll taxes	<u>59,740</u>	<u>6,506</u>	<u>1,780</u>	<u>68,026</u>
Total salaries and related expenses	864,734	94,174	25,764	984,672
Professional fees	129,083	25,697	-	154,780
Travel	1,123	40	-	1,163
Occupancy	27,437	3,048	-	30,485
Telephone	9,426	1,047	-	10,473
Supplies	70,607	7,651	-	78,258
Insurance	10,192	1,132	-	11,324
Postage	2,367	263	-	2,630
Family assistance	2,588	-	-	2,588
Equipment maintenance and rental	16,624	1,847	-	18,471
Staff education	6,273	-	-	6,273
Art concerts and performances	10,111	-	-	10,111
Marketing	2,020	288	577	2,885
Due and subscriptions	1,524	169	-	1,693
Miscellaneous	<u>9,632</u>	<u>869</u>	<u>-</u>	<u>10,501</u>
	1,163,741	136,225	26,341	1,326,307
Depreciation	<u>1,863</u>	<u>207</u>	<u>-</u>	<u>2,070</u>
Total expenses	\$ <u>1,165,604</u>	<u>136,432</u>	<u>26,341</u>	<u>1,328,377</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, 2008

	<u>Family Services</u>	<u>Management and General</u>	<u>Fundraising</u>	<u>Total Expenses</u>
Salaries	\$ 697,972	90,012	14,826	802,810
Deferred compensation	13,480	1,738	287	15,505
Employee benefits	112,687	14,533	2,392	129,612
Payroll taxes	<u>65,871</u>	<u>8,495</u>	<u>1,399</u>	<u>75,765</u>
Total salaries and related expenses	890,010	114,778	18,904	1,023,692
Professional fees	129,869	34,057	4,000	167,926
Travel	2,827	90	-	2,917
Occupancy	27,680	3,075	-	30,755
Telephone	9,068	1,007	-	10,075
Supplies	65,971	7,557	-	73,528
Insurance	11,377	1,264	-	12,641
Postage	2,133	237	-	2,370
Family assistance	2,394	-	-	2,394
Equipment maintenance and rental	9,131	1,014	-	10,145
Staff education	7,779	-	-	7,779
Art concerts and performances	7,283	-	-	7,283
Marketing	2,608	373	745	3,726
Due and subscriptions	3,511	390	-	3,901
Miscellaneous	<u>6,980</u>	<u>725</u>	<u>-</u>	<u>7,705</u>
	1,178,621	164,567	23,649	1,366,837
Depreciation	<u>1,390</u>	<u>154</u>	<u>-</u>	<u>1,544</u>
Total expenses	\$ <u>1,180,011</u>	<u>164,721</u>	<u>23,649</u>	<u>1,368,381</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, 2009 and 2008

	<u>2009</u>	<u>2008</u>
Cash flows from operating activities:		
Change in net assets	\$ 287,015	(612,563)
Adjustments to reconcile change in net assets to net cash provided (used) by operating activities:		
Depreciation	2,070	1,544
Net unrealized and realized loss on investments	(247,175)	520,079
Change in value of perpetual trust	(18,549)	59,464
Effect of change in operating assets and liabilities:		
Contributions receivable - United Way	5,540	18,710
Grant receivable	-	20,000
Accounts receivable	4,686	21,516
Accounts payable	2,286	10,010
Accrued expenses	37,522	(37,530)
Deferred compensation	<u>(8,041)</u>	<u>(26,502)</u>
Net cash provided (used) by operating activities	<u>65,354</u>	<u>(25,272)</u>
Cash flows from investing activities:		
Purchase of equipment	(1,130)	(4,981)
Proceeds from sale of investments	157,000	329,412
Purchase of investments	<u>(177,693)</u>	<u>(290,962)</u>
Net cash provided (used) by investing activities	<u>(21,823)</u>	<u>33,469</u>
Change in cash	43,531	8,197
Cash - beginning of year	<u>263,502</u>	<u>255,305</u>
Cash - end of year	\$ <u>307,033</u>	<u>263,502</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 in 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 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.

Accounting for uncertainty in income taxes

The Agency adopted the provisions *Accounting for Uncertainty in Income Taxes* on January 1, 2009. Those provisions clarify the accounting and recognition for income tax positions taken or expected to be taken in the Agency's income tax returns. The Agency's income tax filings are subject to audit by various taxing authorities. The Agency's open audit periods are 2006–2008. The Agency's policy with regard to interest and penalty is to recognize interest through interest expense and penalties through other expense. In evaluating the Agency's tax provisions and tax exempt status, interpretations and tax planning strategies are considered. The Agency believes their estimates are appropriate based on current facts and circumstances.

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. 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 July 30, 2010, the date on which the financial statements were available to be issued.

Reclassifications

Certain items have been reclassified from 2008 to conform to current year presentation.

2. CONTRIBUTION RECEIVABLE – UNITED WAY:

The Agency has recorded a contribution receivable from United Way at December 31, 2009 and 2008 representing the funds that will be received during the subsequent year.

3. INVESTMENTS:

All investments are held in mutual funds. As of December 31, 2009 and 2008, the aggregate costs of the mutual funds were \$2,176,198 and \$2,141,051, respectively. As of December 31, 2009 and 2008 the fair values of the investments were \$1,880,573 and \$1,612,705, respectively.

4. EQUIPMENT:

Equipment is summarized as follows at December 31:

	<u>2009</u>	<u>2008</u>
Furniture and fixtures	\$ 20,340	26,197
Less accumulated depreciation	<u>14,465</u>	<u>19,382</u>
	<u>\$ 5,875</u>	<u>6,815</u>

5. 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, 2009 and 2008 was \$158,192 and \$139,643, respectively.

6. TEMPORARILY RESTRICTED NET ASSETS:

Temporarily restricted net assets consist of contributions receivable from United Way of \$575,000 and \$580,540 at December 31, 2009 and 2008, respectively.

7. PERMANENTLY RESTRICTED NET ASSETS:

Permanently restricted net assets consist of an interest in a perpetual trust of \$158,192 and \$139,643 as of December 31, 2009 and 2008, respectively.

8. RETIREMENT AND COMPENSATION PLANS:

Pension plan

The Agency has a noncontributory defined contribution plan in which an employee may participate in the plan on the first day of the month after an employee attains one year of service. 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 8% of employees' compensation for both 2009 and 2008.

Under this plan, pension benefits included in the statement of functional expenses for 2009 and 2008 were \$33,988 and \$46,991, 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 is unfunded and benefits are being paid out over 60 months beginning January 1, 2008. Amounts to be paid under this plan were \$31,558 and \$39,599, respectively, as of December 31, 2009 and 2008.

Special compensation award

In 2003, the Agency awarded \$75,000 to two employees. The awards were compensation for services rendered and accrued interest at an annual rate of 4% until an employee's termination, retirement, death, or disability. Employees receive all compensation and interest upon retirement at age 65. Employees

forfeit all compensation and interest if they voluntarily terminate employment before age 65. Vesting for other events (employment termination by Agency without cause, death or disability) is pro-rated based on the number of months worked since June 2003 and the number of months from June 2003 until the employee attains age 65. Under this plan, the total special compensation award expense included in the statement of functional expenses as of December 31, 2008 was \$15,505. The Agency made final payouts of all amounts due under this arrangement during 2008.

9. LEASE COMMITMENT:

The Agency leases office facilities primarily from the United Way under a month to month operating lease. Total rent expense, including other facility expense for 2009 and 2008 was \$30,485 and \$30,755, respectively.

In addition, the Agency leases office equipment under an operating lease. Total office equipment expense for 2009 and 2008 was \$4,724 and \$6,348, respectively. Future minimum lease expense for the office equipment is:

2010	\$ 3,912
2011	3,912
2012	3,912
2013	<u>1,304</u>
	\$ <u>13,040</u>

10. CONCENTRATION OF RISK:

Approximately 36% and 71% of the Agency's unrestricted and temporarily restricted support and revenue for the years ending December 31, 2009 and 2008, respectively, came from contributions from United Way. The Agency is economically dependent on United Way contributions.

11. ENDOWMENT FUNDS:

Generally accepted accounting principles 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 real investment returns to the Agency. The endowment is currently only a board-designated endowment.

The Agency has interpreted the State Prudent Management of Institutional Funds Act (SPMIFA) as requiring the preservation of the fair value of the original gift as of the gift date of the donor-restricted endowment funds absent explicit donor stipulations to the contrary. As a result of this interpretation, the Agency classifies as permanently restricted net assets (a) the original value of gifts donated to the permanent endowment, (b) the original value of subsequent gifts to the permanent endowment, and (c) accumulations to the permanent endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund. The remaining portion of the donor-restricted endowment fund that is not classified in permanently restricted net assets is classified as temporarily restricted net assets until those amounts are appropriated for expenditure by the Agency in a manner consistent with the standard of prudence prescribed by SPMIFA. In accordance with SPMIFA, the

Agency considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds: the duration and preservation of the fund; the purposes of the Agency and the donor-restricted endowment fund; general economic conditions; the possible effect of inflation and deflation; the expected total return from income and the appreciation of investments; other resources of the Agency; and the investment policies of the Agency.

The board designated endowment has a balance of \$1,880,573 and \$1,612,705 at December 31, 2009 and 2008, respectively.

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

	2009	2008
	<u>Unrestricted</u>	<u>Unrestricted</u>
Endowment net assets at beginning of year	\$ 1,612,705	2,171,234
Interest and dividend income	76,788	79,424
Realized and unrealized gain (loss) on investments	247,175	(520,079)
Contributions	22,405	47,126
Appropriated for expenditures	<u>(78,500)</u>	<u>(165,000)</u>
Endowment net assets at end of year	<u>\$ 1,880,573</u>	<u>1,612,705</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 Agency must provide modest growth of capital and to 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.

12. 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. The fair value hierarchy prioritizes the inputs to valuation techniques used to measure fair value into three broad levels:

- Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities the Agency has the ability to access.
- Level 2 inputs are inputs (other than quoted prices included within level 1) that are observable for the asset or liability, either directly or indirectly.
- Level 3 are unobservable inputs for the asset or liability and rely on management's own assumptions about the assumptions that market participants would use in pricing the asset or liability.

The carrying amounts of financial instruments including cash, contributions receivable, accounts receivable and accounts payable approximated fair value as of December 31, 2009 and 2008, because of the relatively short maturity of these instruments. Fair value methods and assumptions on investments in cash equivalents and equity mutual funds are based on the Level 1 market approach. Investments in bond mutual funds that are not quoted on an exchange, but are traded in active markets, are valued on Level 2 inputs using prices obtained from the Agency's investment custodians, which used third party data service providers. The interest in perpetual trust is valued on Level 2 inputs based on the underlying investments in the trust.

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, 2009 and 2008.

Fair Value Measurements at Reporting Date Using

	<u>Fair Value</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>
<u>December 31, 2009</u>				
Investments	\$ 1,880,573	887,018	993,555	-
Interest in perpetual trust	158,192	-	158,192	-
<u>December 31, 2008</u>				
Investments	\$ 1,612,705	696,179	916,526	-
Interest in perpetual trust	139,643	-	139,643	-



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