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THE CHILDREN'S HOME

Combined Financial Statements, Supplementary Financial
Information and Reports as Required by the
Comptroller General of the United States and
Office of Management and Budget Circular A-133

June 30, 2012 and 2011

THE CHILDREN'S HOME

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AUDITED FINANCIAL STATEMENTS

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**Independent Auditors' Report on Combined Basic Financial
Statements and Supplementary Financial Information**

The Boards of Directors
The Children's Home:

We have audited the accompanying combined statements of financial position of The Children's Home (collectively the "Organization") as of June 30, 2012 and 2011, and the related combined statements of unrestricted support and revenue, expenses and other changes in unrestricted net assets, changes in net assets, and cash flows for the years then ended, and the related combined statement of functional expenses for the year ended June 30, 2012. These combined financial statements are the responsibility of the Organization's management. Our responsibility is to express an opinion on these combined financial statements based on our audits. The prior year summarized comparative information included in the combined statement of functional expenses has been derived from the Organization's 2011 combined financial statements and, in our report dated October 25, 2011, we expressed an unqualified opinion on those combined financial statements.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Organization's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, 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 combined financial statements referred to above present fairly, in all material respects, the combined financial position of The Children's Home as of June 30, 2012 and 2011, and the changes in their net assets and their cash flows for the years then ended, and their functional expenses for the year ended June 30, 2012, in conformity with accounting principles generally accepted in the United States.

In accordance with *Government Auditing Standards*, we have also issued a report dated October 26, 2012 on our consideration of The Children's Home's internal control over financial reporting and our tests of their compliance with certain provisions of laws, regulations, contracts and grant agreements, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

Our audits were performed for the purpose of forming an opinion on the combined financial statements of The Children's Home taken as a whole. The supplementary financial information listed in the table of contents is presented for purposes of additional analysis and is not a required part of the combined financial statements. The accompanying schedule of expenditures of federal awards and state financial assistance is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations, and by Chapter 10.650, Rules of the State of Florida Auditor General, and is also not a required part of the combined financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the combined financial statements. The information has been subjected to the auditing procedures applied in the audit of the combined financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the combined financial statements or to the combined financial statements themselves and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects, in relation to the combined financial statements taken as a whole.

Fernis, Birch & Ricardo, LLC

Clearwater, Florida
October 26, 2012

THE CHILDREN'S HOME

Combined Statements of Financial Position

June 30, 2012 and 2011

<u>Assets</u>	<u>2012</u>	<u>2011</u>
Cash (note 9)	\$ 202,920	47,814
Receivables:		
Grants and contracts (note 9)	630,939	779,378
Medicaid	105,323	57,315
Accrued interest	20,965	24,272
Contributions (note 4)	464,287	594,748
Contribution of use of School facility (note 4)	1,904,642	1,945,434
Investments (notes 2, 5 and 16)	11,898,007	12,328,991
Prepaid expenses and other assets	135,105	137,775
Cash surrender value of life insurance (note 16)	67,586	61,395
Beneficial interest in perpetual trust (note 10)	1,193,764	1,247,621
Net property and equipment (note 3)	4,142,923	4,516,416
	\$ <u>20,766,461</u>	<u>21,741,159</u>
 <u>Liabilities and Net Assets</u>		
Liabilities:		
Line of credit (note 5)	\$ 25,000	50,000
Accounts payable	225,340	178,087
Deferred lease incentive and accrued rent expense (note 6)	82,007	157,467
Other accrued expenses	455,484	409,655
Deferred revenue	-	36,624
Estimated third-party payor liabilities (note 15)	22,000	22,881
Annuities payable (notes 14 and 16)	72,875	75,892
	<u>882,706</u>	<u>930,606</u>
Total liabilities		
Net assets (note 11):		
Unrestricted -		
Undesignated	3,751,464	4,109,539
Designated for long-term investment	7,701,055	8,135,415
	<u>11,452,519</u>	<u>12,244,954</u>
Temporarily restricted (note 10)	3,124,403	3,205,409
Permanently restricted for endowment (note 10)	5,306,833	5,360,190
	<u>19,883,755</u>	<u>20,810,553</u>
Total net assets		
	\$ <u>20,766,461</u>	<u>21,741,159</u>

See accompanying notes to combined financial statements.

THE CHILDREN'S HOME

Combined Statements of Unrestricted Support and Revenue, Expenses and
Other Changes in Unrestricted Net Assets

Years ended June 30, 2012 and 2011

	2012	2011
Operating Support and Revenue:		
<i>Public support:</i>		
Special event revenue	\$ 503,211	556,495
Less special event costs	(327,992)	(371,222)
Net revenue from special events	175,219	185,273
United Way	163,589	163,902
Contributions	830,224	965,028
Bequests	607,825	630,531
Government fees and grants (note 9)	5,840,977	7,982,593
	7,617,834	9,927,327
<i>Revenue:</i>		
Investment return designated for current operations (note 2)	925,000	1,000,000
Medicaid	762,801	652,351
Program service fees	16,738	9,137
Thrift store sales	-	141,928
In-kind (note 8)	593,254	472,512
Other	3,524	5,127
	2,301,317	2,281,055
<i>Net assets released from restrictions:</i>		
Expiration of time restrictions on United Way funding	45,219	99,343
Expiration of time restrictions on bequests	125,400	181,640
Satisfaction of donor restrictions	237,937	375,057
	408,556	656,040
Total operating support and revenue	10,327,707	12,864,422
Operating Expenses:		
<i>Program services:</i>		
Residential services	3,793,601	3,850,085
Community counseling	421,382	901,404
S.E.A.R.C.H.	520,649	564,040
Family support network	3,096,100	2,999,060
Community based care	275,198	1,677,858
	8,106,930	9,992,447
<i>Supporting services:</i>		
Management and general	1,412,943	1,659,868
Development and public information	503,959	984,435
	1,916,902	2,644,303
Total operating expenses	10,023,832	12,636,750
Increase in unrestricted net assets from operations	303,875	227,672
Other Changes:		
Increase (decrease) in fair value of investment portfolio over amounts designated for current operations (note 2)	(1,080,027)	791,423
Change in value of split-interest agreements	(16,283)	(10,915)
Loss on sale of equipment	-	(9,933)
Donated capital assets	-	33,044
	(1,096,310)	783,619
Increase (decrease) in unrestricted net assets	\$ (792,435)	1,031,291

See accompanying notes to combined financial statements.

THE CHILDREN'S HOME

Combined Statements of Changes in Net Assets

Years ended June 30, 2012 and 2011

	<u>2012</u>	<u>2011</u>
Unrestricted net assets:		
Total unrestricted operating support and revenue	\$ 9,919,151	12,208,382
Total unrestricted operating expenses	(10,023,832)	(12,636,750)
Increase (decrease) in fair value of investment portfolio over amounts designated for current operations	(1,080,027)	791,423
Change in value of split-interest agreements	(16,283)	(10,915)
Loss on sale of equipment	-	(9,933)
Donated capital assets	-	33,044
Net assets released from restrictions	<u>408,556</u>	<u>656,040</u>
Increase (decrease) in unrestricted net assets	<u>(792,435)</u>	<u>1,031,291</u>
Temporarily restricted net assets:		
United Way allocations	45,220	45,219
Contributions	205,089	184,120
Bequests	77,241	117,493
Imagination Center pledge forgiven	-	(948,058)
Net assets released from restrictions	<u>(408,556)</u>	<u>(656,040)</u>
Decrease in temporarily restricted net assets	<u>(81,006)</u>	<u>(1,257,266)</u>
Permanently restricted net assets:		
Change in value of beneficial interest in perpetual trust	(53,857)	-
Contributions and bequests	<u>500</u>	<u>1,248,621</u>
Increase (decrease) in permanently restricted net assets	<u>(53,357)</u>	<u>1,248,621</u>
Increase (decrease) in net assets	(926,798)	1,022,646
Net assets at beginning of year	<u>20,810,553</u>	<u>19,787,907</u>
Net assets at end of year	<u>\$ 19,883,755</u>	<u>20,810,553</u>

See accompanying notes to combined financial statements.

THE CHILDREN'S HOME

Combined Statement of Functional Expenses

Year ended June 30, 2012
(With Comparative Totals for 2011)

	Program Services					Supporting Services			Total expenses		
	Residential Services	Community Counseling	S.E.A.R.C.H.	Family Support Network	Community Based Care	Total	Management and General	Development and Public Information	Total	2012	2011
Awards, grants, and assistance:											
Awards, grants and assistance to individuals	\$ 63,839	-	200,565	46,333	260	310,997	-	-	-	310,997	319,976
	<u>63,839</u>	<u>-</u>	<u>200,565</u>	<u>46,333</u>	<u>260</u>	<u>310,997</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>310,997</u>	<u>319,976</u>
Salaries and related expenses:											
Salaries	1,878,449	100,858	191,673	1,760,962	98,678	4,030,620	793,568	214,974	1,008,542	5,039,162	6,327,515
Payroll taxes	179,200	8,873	16,294	156,331	8,102	368,800	66,240	19,231	85,471	454,271	535,922
Employee benefits	201,227	9,773	22,899	233,176	14,557	481,632	69,936	17,527	87,463	569,095	765,234
	<u>2,258,876</u>	<u>119,504</u>	<u>230,866</u>	<u>2,150,469</u>	<u>121,337</u>	<u>4,881,052</u>	<u>929,744</u>	<u>251,732</u>	<u>1,181,476</u>	<u>6,062,528</u>	<u>7,628,671</u>
Other operating expenses:											
Professional fees	51,741	15,207	5,971	23,762	-	96,681	235,509	113,866	349,375	446,056	464,495
Subcontractors	1,000	256,379	400	386,307	-	644,086	-	-	-	644,086	1,272,912
Supplies and materials	158,969	2,995	12,454	53,006	762	228,186	18,923	6,142	25,065	253,251	247,944
Electronic communications	12,904	2,912	3,769	44,519	1,897	66,001	7,658	3,635	11,293	77,294	81,351
Postage and shipping	1,981	321	26	2,272	-	4,600	6,075	28,676	34,751	39,351	61,567
Occupancy	298,055	12,535	9,769	137,735	90,847	548,941	44,291	11,241	55,532	604,473	729,446
Repairs, maintenance and rentals	42,740	7	334	8,081	3,446	54,608	14,394	11	14,405	69,013	64,433
Copying and printing	5,819	551	5,180	14,171	-	25,721	4,066	25,687	29,753	55,474	61,018
Travel and vehicle	29,480	771	9,027	121,927	5,581	166,786	8,465	1,129	9,594	176,380	237,002
Financing expense	-	-	-	-	-	-	3,795	-	3,795	3,795	6,528
Insurance	103,575	8,441	7,846	64,954	2,243	187,059	23,852	1,556	25,408	212,467	249,698
Organization and staff development	7,307	-	1,225	4,047	3,335	15,914	25,397	2,970	28,367	44,281	68,403
In-kind	564,679	-	-	28,575	-	593,254	-	-	-	593,254	472,512
Bad debt expense	-	-	-	-	-	-	-	27,525	27,525	27,525	192,185
Other	-	-	-	135	1	136	2,608	6,488	9,096	9,232	56,719
	<u>1,278,250</u>	<u>300,119</u>	<u>56,001</u>	<u>889,491</u>	<u>108,112</u>	<u>2,631,973</u>	<u>395,033</u>	<u>228,926</u>	<u>623,959</u>	<u>3,255,932</u>	<u>4,266,213</u>
Depreciation and amortization	192,636	1,759	33,217	9,807	45,489	282,908	88,166	23,301	111,467	394,375	421,890
Total expenses before allocation of management and general	3,793,601	421,382	520,649	3,096,100	275,198	8,106,930	1,412,943	503,959	1,916,902	10,023,832	12,636,750
Allocation of management and general	646,623	71,825	88,745	472,942	46,908	1,327,043	(1,412,943)	85,900	(1,327,043)	-	-
	<u>\$ 4,440,224</u>	<u>493,207</u>	<u>609,394</u>	<u>3,569,042</u>	<u>322,106</u>	<u>9,433,973</u>	<u>-</u>	<u>589,859</u>	<u>589,859</u>	<u>10,023,832</u>	<u>12,636,750</u>

See accompanying notes to combined financial statements.

THE CHILDREN'S HOME

Combined Statements of Cash Flows

Years ended June 30, 2012 and 2011

	2012	2011
Cash flows from operating activities:		
Increase (decrease) in net assets	\$ (926,798)	1,022,646
Adjustments to reconcile increase (decrease) in net assets to net cash used in operating activities:		
Depreciation and amortization	394,375	421,890
Loss on sale of equipment	-	9,933
Net realized and unrealized losses (gains) on investments	648,183	(1,536,218)
Noncash contribution of beneficial interest in perpetual trust	-	(1,247,621)
Change in value of beneficial interest in perpetual trust	53,857	-
Donated equipment	-	(33,044)
Imagination Center pledge forgiven	-	948,058
Contributions restricted for long-term investment	(500)	(1,000)
Decrease in receivables	274,991	614,782
Decrease in prepaid expenses and other assets	2,670	3,584
Decrease (increase) in cash surrender value of life insurance	(6,191)	15,944
Decrease in accounts payable and other liabilities	(19,883)	(352,048)
	420,704	(133,094)
Net cash provided by (used in) operating activities	420,704	(133,094)
Cash flows from investing activities:		
Capital expenditures	(20,882)	(52,152)
Proceeds from sale of equipment	-	14,700
Purchase of investment securities	(550,476)	(1,318,727)
Proceeds from sale of investment securities	333,277	1,563,139
	(238,081)	206,960
Net cash provided by (used in) investing activities	(238,081)	206,960
Cash flows from financing activities:		
Net repayments under line of credit	(25,000)	(200,000)
Proceeds from contributions restricted for long-term investment	500	1,000
Principal payments on annuities payable	(3,017)	(7,815)
Principal payments on capital lease obligations	-	(5,146)
	(27,517)	(211,961)
Net cash used in financing activities	(27,517)	(211,961)
Net increase (decrease) in cash	155,106	(138,095)
Cash at beginning of year	47,814	185,909
Cash at end of year	\$ 202,920	47,814
Supplemental disclosure of cash flow information-		
Cash paid during the year for interest	\$ 3,795	6,528

See accompanying notes to combined financial statements.

THE CHILDREN'S HOME

Notes to Combined Financial Statements

June 30, 2012 and 2011

(1) **Description of Organization and Summary of Significant Accounting Policies**

(a) **Description of Organization**

The Children's Home (collectively the "Organization") consists of three not-for-profit entities that provide services to abused children and at-risk families. The Boards of Directors set policy and oversee the financial affairs of the Organization which is funded primarily by the State of Florida Department of Children and Families, Hillsborough Kids, Inc. (HKI) and other lead agencies, United Way of Tampa Bay, Inc., The Children's Board of Hillsborough County, the Juvenile Welfare Board of Pinellas County, investment earnings and private contributions.

In July 2009, the Boards of Directors approved a restructuring of the Organization. At the center of this structure, *The Children's Home, Inc.* continues to accomplish its historic mission through a therapeutic residential program; foster care, kinship care, and a wide range of community-based early intervention programs. The activities previously conducted by *The Children's Home Community Based Care, Inc.* and *The Children's Home Community, Inc.* were consolidated under The Children's Home, Inc. in an effort to create efficiencies in the coordination and reporting for program services. The remaining entities supporting these activities are as follows:

The Children's Home Foundation, Inc. holds and invests the Organization's endowment and other funds designated by the Boards of Directors for long-term investment to preserve capital and generate income to finance the delivery of services to abused children and at-risk families.

The Children's Home Properties, Inc. manages and maintains the real estate, facilities and improvements that are integral to the safe, efficient and effective delivery of services to abused children and at-risk families.

These entities are under common control and therefore their financial statements are combined for purposes of financial reporting. All significant interorganization balances and transactions have been eliminated in combination.

Since 2002, the Children's Home, Inc. has been accredited by the Council on Accreditation. In June 2010, a site visit was completed, including a thorough review of all programs and services, resulting in the Organization's successful re-accreditation through 2014.

(b) **Financial Statement Presentation**

The Organization reports information regarding its financial position and activities according to three classes of net assets: unrestricted net assets, temporarily restricted net assets, and permanently restricted net assets. In addition, the Organization is required to present a statement of cash flows.

The statement of functional expenses includes certain prior-year summarized comparative information in total but not by functional category. Such information does not include sufficient detail to constitute a presentation in conformity with accounting principles generally accepted in the United States. Accordingly, such information should be read in conjunction with the Organization's financial statements for the year ended June 30, 2011, from which the summarized information was derived.

(Continued)

THE CHILDREN'S HOME

Notes to Combined Financial Statements

(c) **Financial Accounting Standards**

The Financial Accounting Standards Board (FASB) issued authoritative guidance establishing two levels of U.S. generally accepted accounting principles (GAAP) - authoritative and nonauthoritative - and made the Accounting Standards Codification (ASC) the source of authoritative, nongovernmental GAAP, except for rules and interpretive releases of the Securities and Exchange Commission. This guidance was incorporated into ASC Topic 105 - Generally Accepted Accounting Principles. The adoption changed certain disclosure references to U.S. GAAP, but did not have any other impact on the Organization's financial statements.

(d) **Contributions**

The Organization accounts for contributions as unrestricted, temporarily restricted, or permanently restricted support depending on the existence or nature of any donor restrictions. Contributions that are restricted by the donor are reported as increases in unrestricted net assets if the restrictions expire or are otherwise satisfied in the fiscal year in which the contributions are recognized.

(e) **Investments**

Investments in marketable securities with readily determinable fair values and all investments in debt securities are carried at their fair values in the Organization's balance sheet. Unrealized gains and losses are included in the change in net assets in the accompanying financial statements. Restrictions on investment earnings are reported as increases in unrestricted net assets if the restrictions expire in the fiscal year in which the earnings are recognized.

(f) **Property and Equipment**

Depreciation of property and equipment is computed principally by the straight-line method over the estimated useful lives of the related assets. Expenditures for property and equipment are stated at cost, and those in excess of \$1,000 are capitalized. Similarly, property and equipment donated with a fair market value in excess of \$1,000 as of the date of receipt is capitalized. The estimated useful lives of related asset classes are as follows:

Buildings and improvements	5 to 30 years
Furniture and equipment	3 to 10 years
Transportation equipment	3 to 5 years

(g) **Accounts Receivable**

Accounts receivable are stated at unpaid balances, less an allowance for doubtful accounts. The Organization provides for losses on accounts receivable using the allowance method. The allowance is based on historical experience, third-party contracts, and other circumstances, which may affect the ability of payors to meet their obligations. Receivables are considered impaired if full principal payments are not received in accordance with the contractual terms. It is the Organization's policy to charge off uncollectible accounts receivable when management determines the receivable will not be collected.

(Continued)

THE CHILDREN'S HOME

Notes to Combined Financial Statements

(h) **Annuities Payable**

Annuities payable are stated at the actuarial present value of future cash flows expected to be paid to donors, or in certain cases donors' spouses, in the event of a donor's death. Discount rates used in computing present values range from 5.8% to 8%.

(i) **Income Taxes**

Each of the entities included in the combined financial statements has been recognized by the Internal Revenue Service as a tax-exempt organization described in Section 501(c)(3) of the Internal Revenue Code of 1986. Income earned in furtherance of the Organization's tax-exempt purpose is exempt from Federal and State income taxes. The Organization is treated as a publicly supported organization, and not as a private foundation. The Organization has adopted the provisions of ASC Topic 740 relating to "Accounting for Uncertainty in Income Taxes" and does not believe it has any material income tax exposure relating to uncertain tax positions. The Organization's income tax filings for periods after the fiscal year ended June 30, 2008 remain subject to examination.

(j) **Reclassifications**

Certain amounts in the 2011 combined financial statements have been reclassified to conform to the presentation of the 2012 combined financial statements.

(k) **Estimates in Combined Financial Statements**

The preparation of financial statements in conformity with accounting principles generally accepted in the United States 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 increases or decreases in net assets during the period. Actual results could differ from those estimates.

(l) **Fair Value Measurements**

The Organization has adopted FASB guidance relating to Fair Value Measurements which requires the use of a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value into three levels: quoted market prices that are observable for the assets or liabilities (Level 1); inputs other than quoted market prices that are observable for the asset or liability, either directly or indirectly (Level 2); and unobservable inputs for the asset or liability (Level 3). The carrying amount reported in the combined balance sheet for cash, accounts receivable, and accounts payable approximate fair value because of the immediate or short-term maturities of these financial instruments.

(Continued)

THE CHILDREN'S HOME

Notes to Combined Financial Statements

(2) Investments

At June 30, 2012 and 2011, the cost and market value of investments are as follows:

	<u>2012</u>		<u>2011</u>	
	<u>Cost</u>	<u>Market</u>	<u>Cost</u>	<u>Market</u>
<u>Annuity Funds</u>				
Money market funds	\$ 8,839	8,839	4,217	4,217
Fixed income mutual funds	90,116	98,036	42,467	44,013
Equity securities	-	-	47,538	57,049
	<u>98,955</u>	<u>106,875</u>	<u>94,222</u>	<u>105,279</u>
<u>Endowments</u>				
Money market funds	1,093,531	1,093,531	590,924	590,924
U.S. Government and Agency obligations	439,094	351,827	428,984	357,410
Corporate obligations	2,712,559	2,806,219	1,934,959	1,949,300
Common stock	1,903,717	2,081,649	1,172,836	1,222,816
Foreign bonds	52,775	52,318	-	-
Hedge funds	83,826	60,795	134,981	109,591
Mutual funds	4,655,198	5,344,793	6,211,758	7,993,671
	<u>10,940,700</u>	<u>11,791,132</u>	<u>10,474,442</u>	<u>12,223,712</u>
	<u>\$ 11,039,655</u>	<u>11,898,007</u>	<u>10,568,664</u>	<u>12,328,991</u>

The Organization's investments in common stock, equity mutual funds and corporate obligations are not concentrated in a single entity or in a few entities, nor are there any specific industry concentrations. Investments include amounts which have been permanently restricted by donors for endowment purposes and temporarily restricted for the acquisition of property and equipment, as more fully described in Note 10.

The following schedule summarizes investment return for the years ended June 30, 2012 and 2011:

	<u>2012</u>	<u>2011</u>
Dividend and interest income	\$ 551,585	298,070
Net realized and unrealized gains (losses)	(648,183)	1,536,218
Investment management fees	<u>(58,429)</u>	<u>(42,865)</u>
Total investment return	(155,027)	1,791,423
Investment return designated for current operations	<u>(925,000)</u>	<u>(1,000,000)</u>
Increase (decrease) in fair value of investment portfolio over amounts designated for current operations	<u>\$ (1,080,027)</u>	<u>791,423</u>

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Notes to Combined Financial Statements

(3) Property and Equipment

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

	2012	2011
Land and improvements	\$ 805,444	805,444
Buildings and improvements	6,712,464	6,709,227
Furniture and equipment	1,364,087	1,451,263
Computer software	220,561	276,259
Transportation equipment	254,716	254,716
	9,357,272	9,496,909
Less accumulated depreciation and amortization	5,214,349	4,980,493
	\$ 4,142,923	4,516,416

Depreciation expense for the years ended June 30, 2012 and 2011 was \$394,375 and \$421,890, respectively.

The Organization obtained funding from Hillsborough County to fund the renovation of residential cottages. In connection with this agreement, the Organization entered into a land use restriction agreement whereby the Organization must continue to use the cottages for the benefit of abandoned, abused and/or neglected children for a period of forty years.

(4) Contributions Receivable

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

	2012	2011
United Way allocations	\$ 45,220	45,219
Bequests	308,404	356,562
Pledges	131,725	217,839
Total contributions receivable	485,349	619,620
Less allowance for doubtful collections	20,000	20,000
Less unamortized discount	1,062	4,872
	\$ 464,287	594,748
Amounts due in:		
Less than one year	\$ 448,611	294,995
One to five years	36,738	324,625
	\$ 485,349	619,620

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Notes to Combined Financial Statements

Contributions receivable due in more than one year are reflected at the present value of estimated future cash flows using discount rates ranging from 1.7% to 3.3%.

In fiscal 2004, the Organization entered into an agreement with the Hillsborough County School Board (School Board) for the purpose of transferring title to certain real property to the School Board in return for the exclusive use of a building (the Parkhill School replacement facility) constructed on the property, which is located adjacent to the Organization's main campus, for a period of thirty years. The Organization's right to use the building for thirty years has been treated as a temporarily restricted contribution from the School Board and is reflected as an asset in the accompanying combined statements of financial position at June 30, 2012 and 2011.

(5) Line of Credit

At June 30, 2012 and 2011, the Organization has a revolving line of credit from a commercial bank that allows the Organization to borrow up to \$750,000 at one month LIBOR plus 2.75% (2.99% at June 30, 2012). The loan is secured by an investment account with a fair market value of \$2,335,369 and \$2,244,465 as of June 30, 2012 and 2011, respectively. The outstanding balance on the line of credit at June 30, 2012 and 2011 was \$25,000 and \$50,000, respectively.

(6) Leases

The Organization is obligated under several noncancellable operating leases, primarily for office space, that expire over the next five years. Security deposits related to such leases are included in other assets. Rental expense on operating leases was approximately \$760,000 and \$758,000 for the years ended June 30, 2012 and 2011, respectively. Rental income under sublease agreements totaled approximately \$528,000 and \$422,000 for the years ended June 30, 2012 and 2011, respectively, and has been recorded as a reduction of rent expense in the accompanying financial statements.

In connection with a lease renewal for office space in fiscal 2008, the Organization received an incentive from the lessor in the form of leasehold improvements which amounted to \$246,400. The incentive is being amortized as a reduction of rent expense over the term of the related lease. Effective January 2011, the lease was terminated and the unamortized balances of the deferred lease incentive and leasehold improvements were written off.

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

<u>Year ending June 30:</u>	
2013	\$ 755,992
2014	124,138
2015	96,072
2016	77,869
2017	<u>24,438</u>
	\$ <u><u>1,078,509</u></u>

(Continued)

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Notes to Combined Financial Statements

(7) **Retirement Plan**

The Organization sponsors a defined contribution retirement plan which covers all employees with one year's service who have attained the age of 21. In 2012, the plan, subject to minimum funding standards, required matching contributions up to 2% of each participant's gross wages, which are paid to the plan in bi-weekly installments. In 2011, the plan required contributions in the amount of 2% of each participant's gross wages. Participants are immediately vested in their salary deferral contributions and become fully vested in Organization contributions over a five year period of continuous service. Organization contributions to the plan were \$54,580 and \$110,915 for the years ended June 30, 2012 and 2011, respectively. For the years ended June 30, 2012 and 2011, the Organization recognized pension forfeiture income totaling \$22,711 and \$39,792, respectively, which is netted against employee benefits in the accompanying statement of functional expenses.

(8) **Donated Services and Materials**

A substantial number of volunteers have donated significant amounts of time in different projects for the Organization. In addition, materials are donated to the Organization on a periodic basis. For the years ended June 30, 2012 and 2011, total in-kind support was \$781,302 and \$696,157, respectively, of which \$188,048 and \$223,645 are included in special event revenue and expense. For the years ended June 30, 2012 and 2011, contributed services totaled \$174,409 and \$136,084, respectively, and consisted of a variety of services utilized in the Organization's residential treatment program. For the years ended June 30, 2012 and 2011, donated materials totaled \$606,893 and \$560,073, respectively. For the years ended June 30, 2012 and 2011, donated fixed assets were \$0 and \$33,044, respectively.

(9) **Credit and Funding Concentrations**

The Organization maintains several deposit accounts with what management believes to be high credit quality financial institutions and a large commercial brokerage. The total balances of these accounts were covered by federal deposit insurance at June 30, 2012 and 2011. The Organization has no financial instruments which subject it to off-balance-sheet risk.

The Organization relies to a significant extent on the State of Florida as a source of funding. Funding from the State of Florida represented approximately 35% and 47% of total operating support and revenue before investment return for the years ended June 30, 2012 and 2011, respectively. At June 30, 2012 and 2011, approximately 45% of total receivables from grants, contracts and the Medicaid program were comprised of funding provided by the State of Florida.

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Notes to Combined Financial Statements

(10) Temporary and Permanent Restrictions on Net Assets

Temporary restrictions on net assets as of June 30, 2012 and 2011 relate to the following:

	2012	2011
Charitable gift annuities	\$ 104,848	104,848
United Way funding	45,220	45,219
Contributions restricted for future periods	426,587	537,399
Contributions restricted for programs	64,177	-
Capital grants	21,485	-
Contributed use of school facility	1,904,642	1,945,434
Facilities subject to time restrictions	557,444	572,509
	\$ 3,124,403	3,205,409

Permanent restrictions on net assets include the Organization's beneficial interest in a perpetual trust and assets contributed by donors as endowments to be held in perpetuity. Earnings on these endowments are unrestricted in most cases. Restrictions on earnings are reported as increases in unrestricted net assets if the restrictions expire in the fiscal year in which the earnings are recognized. At June 30, 2012 and 2011, permanently restricted net assets consist of the following:

	2012	2011
Beneficial interest in a perpetual trust	\$ 1,193,764	1,247,621
Donor restricted endowments	4,113,069	4,112,569
	\$ 5,306,833	5,360,190

(11) Endowment Funds

The Organization's endowment consists of several individual funds established for a variety of purposes. Its endowment includes both donor-restricted funds and funds designated by the Boards of Directors to function as endowments. As required by generally accepted accounting principles, net assets associated with endowment funds, including funds designated by the Board of Directors to function as endowments, are classified and reported based on the existence or absence of donor-imposed restrictions.

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Notes to Combined Financial Statements

The Boards of Directors have interpreted the wishes of donors and state law 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 Organization 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 unrestricted net assets.

Investment Return Objectives, Risk Parameters, and Strategies

The Organization has adopted investment and spending policies, approved by the Boards of Directors, for endowment assets that attempt to provide a predictable stream of funding to programs supported by its endowment funds while also maintaining the purchasing power of those endowment assets over the long-term. Accordingly, the investment process seeks to achieve an after-cost total real rate of return, including investment income as well as capital appreciation, which exceeds the annual distribution with acceptable levels of risk. Endowment assets are invested in a well diversified asset mix, which includes equity and fixed-income securities, that is intended to result in a consistent inflation-protected rate of return that has sufficient liquidity to make an annual distribution of no more than 4.5% to 7.0% (depending on the nature of the endowment), while growing the funds if possible. Therefore, the Organization expects its endowment assets, over time, to produce an average rate of return of approximately 8% net of fees over a full market cycle. Actual returns in any given year may vary from this amount. Investment risk is measured in terms of the total endowment fund; investment assets and allocation between asset classes and strategies are managed to not expose the fund to unacceptable levels of risk.

Spending Policy

The Organization has a policy of appropriating for distribution each year no more than 4.5% to 7.0% of its endowment fund's fair market value at the end of the calendar year that precedes the start of the organization's Fiscal Year. In establishing this policy, the Organization considered the long-term expected return on its investment assets, the nature and duration of the individual endowment funds, many of which must be maintained in perpetuity because of donor-restrictions, and the possible effects of inflation. The Organization expects the current spending policy to allow its endowment funds to grow at a real after-inflation growth rate of 0.5% annually. This is consistent with the Organization's objective to maintain the purchasing power of the endowment assets as well as to provide additional real growth through new gifts and investment return.

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Notes to Combined Financial Statements

The Organization's endowment funds contain certain temporarily restricted net assets that are not subject to general spending policies. Endowment net asset composition by type of fund as of June 30, 2012 and 2011 are as follows:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total Endowment Net Assets</u>
<i>2012:</i>				
Board-designated endowments	\$ 7,701,055	-	-	7,701,055
Donor-restricted endowments	-	104,848	4,113,069	4,217,917
	<u>\$ 7,701,055</u>	<u>104,848</u>	<u>4,113,069</u>	<u>11,918,972</u>
<i>2011:</i>				
Board-designated endowments	\$ 8,135,415	-	-	8,135,415
Donor-restricted endowments	431	104,848	4,112,569	4,217,848
	<u>\$ 8,135,846</u>	<u>104,848</u>	<u>4,112,569</u>	<u>12,353,263</u>

Changes in endowment net assets for the year ended June 30, 2012 are as follows:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total Endowment Net Assets</u>
Balance, June 30, 2011	\$ 8,135,846	104,848	4,112,569	12,353,263
Contributions	689,694	-	500	690,194
Net investment income	444,855	3,843	-	448,698
Net depreciation	(645,936)	(2,247)	-	(648,183)
Reclassifications	1,596	(1,596)	-	-
Withdrawals	(925,000)	-	-	(925,000)
Balance, June 30, 2012	<u>\$ 7,701,055</u>	<u>104,848</u>	<u>4,113,069</u>	<u>11,918,972</u>

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Notes to Combined Financial Statements

Changes in endowment net assets for the year ended June 30, 2011 are as follows:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total Endowment Net Assets</u>
Balance, June 30, 2010	\$ 6,840,239	112,495	4,111,569	11,064,303
Contributions	506,595	-	1,000	507,595
Net investment income	250,747	4,400	-	255,147
Net appreciation	1,524,320	11,898	-	1,536,218
Reclassifications	13,945	(13,945)	-	-
Withdrawals	(1,000,000)	(10,000)	-	(1,010,000)
Balance, June 30, 2011	<u>\$ 8,135,846</u>	<u>104,848</u>	<u>4,112,569</u>	<u>12,353,263</u>

(12) Funds Held by Community Foundation

In 1992, the Organization established an account at the Community Foundation of Tampa Bay (Foundation) with a payment of \$25,000. This amount is considered an asset (beneficial interest in assets held by others) of the Organization and is included in other assets in the accompanying balance sheet. Earnings on this account are earmarked to be distributed on a periodic basis to the Organization. The Foundation has been granted variance power over these funds which provides the Foundation the unilateral power to redirect the use of the funds to other beneficiaries. Because the Foundation has been granted variance power, funds contributed to the Foundation on behalf of the Organization are not considered to be an asset. The Foundation distributed approximately \$2,600 and \$0 of earnings to the Organization for the years ended June 30, 2012 or 2011, respectively.

(13) Assets Held in Trust By Others

The Organization is currently the sole income beneficiary of the Mary W. Wiggins trust, a perpetual trust established for the Organization's benefit. The trustee directs investment of the principal assets in the trust. Income received by the Organization from the trust was \$19,494 and \$20,342 for the years ended June 30, 2012 or 2011, respectively. The market value of the investments held in the trust was approximately \$484,000 and \$510,000 at June 30, 2012 or 2011, respectively.

(14) Split-Interest Gifts

The Organization is certified by the State of Florida to market and manage charitable gift annuity contracts. Under these contracts, a donor transfers assets to the Organization at the beginning of the contract and the Organization makes predetermined quarterly or semi-annual payments to the donor over their remaining lifetime. Upon the donors' death, the remaining assets are available for the Organization's use. State law requires that the Organization limit the manner in which the Organization invests these assets and that the Organization maintain a reserve fund equal to a minimum of 110% of the actuarial present value of the related annuity obligations. At June 30, 2012, the Organization was in compliance with this requirement.

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Notes to Combined Financial Statements

(15) Contingencies

The Organization is involved in various legal actions arising during the ordinary course of its operations. The potential loss under these claims is not determinable at this time. Management believes any potential loss would be expected to fall within the Organization's insurance policy limits. The only anticipated financial exposure would be payment of the insurance deductible, a nominal amount. In the opinion of management, no material liability exists with respect to these claims.

The Organization routinely enters into grant agreements and contracts with governmental agencies that provide for reimbursement of the eligible direct and indirect costs of providing certain of the Organization's program services. The grants and contracts are subject to audit or review and retroactive adjustment based on a final determination by the grantor of eligible reimbursable expenditures. The effect of such adjustments, if any, on the Organization's financial statements cannot be determined at this time and no provision has been made for any such adjustment in the accompanying combined financial statements.

The Organization is also subject to Medicaid audits. As of June 30, 2012 and 2011, the Organization has included a provision for any potential third party payor liabilities in the amount of \$22,000 and \$22,881, respectively. The effect of an adjustment, if any, resulting from future audits cannot be determined at this time and no provision above the reserve has been made for any such adjustment in the accompanying combined financial statements. Management's estimate of the provision is subject to a significant degree of uncertainty and actual third party payor liabilities may differ from management's estimate in the near term.

(16) Fair Value Measurements

Financial instruments measured at fair value are classified and disclosed in the following categories:

Level 1 - Quoted prices are available in active markets for identical investments as of the reporting date. The types of investments included in Level 1 are cash, money market mutual funds, fixed income mutual funds, equity mutual funds, corporate and government bonds, and mortgage backed securities.

Level 2 - Pricing inputs are other than quoted prices in active markets, which are either directly or indirectly observable as of the reporting date, and fair value is determined through the use of models or other valuation methodologies.

Level 3 - Valuation is based on unobservable inputs. The Organization's investments in equity hedge funds, international equity funds, and partnerships are considered to be Level 3 since the Organization's ownership interest and investment value is based on an allocation of the underlying securities, investment income and expenses. The Organization's cash surrender value of life insurance is considered a financial asset subject to the valuation hierarchy and has been classified as Level 3 since observable inputs are minimal. Fair values for annuities payable are determined by calculating the present value of expected cash flows over the term of the underlying agreements.

The inputs used to measure fair value may fall into different levels of the fair value hierarchy. In such cases, a financial instrument's level within the fair value hierarchy is based on the lowest level of input that is significant to the fair value measurement.

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Notes to Combined Financial Statements

Fair value of assets and liabilities measured on a recurring basis at June 30, 2012 are as follows:

<u>Assets:</u>	<u>Fair Value</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>
<i>Fixed Income Securities:</i>				
Corporate obligations	\$ 2,806,219	2,806,219	-	-
U.S. Government and Agency obligations	-	-	-	-
Short-term bonds	351,827	351,827	-	-
Foreign bonds	309,854	309,854	-	-
Intermediate bonds	52,318	52,318	-	-
Inflation-protected bonds	13,180	13,180	-	-
Other bonds	56,035	56,035	-	-
	13,096	13,096	-	-
<i>Mutual Funds:</i>				
Multi-sector bond funds	539,424	539,424	-	-
International funds	1,087,876	1,087,876	-	-
Long-short funds	1,968	1,968	-	-
Large cap funds	37,918	37,918	-	-
Small/mid cap funds	3,878	3,878	-	-
Other funds	4,752	4,752	-	-
<i>Corporate Stock:</i>				
Consumer discretionary	509,713	509,713	-	-
Consumer staples	709,656	709,656	-	-
Energy	539,282	539,282	-	-
Financials	750,458	750,458	-	-
Health Care	649,931	649,931	-	-
Industrial	552,270	552,270	-	-
Information technology	867,386	867,386	-	-
Materials	337,261	337,261	-	-
Telecom	286,547	286,547	-	-
Utilities	253,993	253,993	-	-
<i>Money Market Funds</i>	1,102,370	1,102,370	-	-
<i>Cash Surrender Value:</i>				
Life Insurance	67,586	-	-	67,586
<i>Beneficial interest in perpetual trust</i>				
	1,193,764	-	1,193,764	-
<i>Low volatility hedge fund</i>	60,795	-	-	60,795
	<u>\$ 13,159,357</u>	<u>11,837,212</u>	<u>1,193,764</u>	<u>128,381</u>
 <i>Liabilities</i>				
Annuities payable	\$ <u>72,875</u>	<u>-</u>	<u>-</u>	<u>72,875</u>

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Notes to Combined Financial Statements

Fair value of assets and liabilities measured on a recurring basis at June 30, 2011 are as follows:

	Fair Value	Level 1	Level 2	Level 3
<i><u>Assets:</u></i>				
<i>Fixed Income Securities;</i>				
Corporate obligations	\$ 1,949,300	1,949,300	-	-
U.S. Government and Agency obligations	357,410	357,410	-	-
Intermediate bonds	309,769	309,769	-	-
Inflation-protected bonds	59,274	59,274	-	-
Other bonds	24,045	24,045	-	-
<i>Mutual Funds</i>				
Multi-sector bond funds	629,282	629,282	-	-
Growth and income funds	2,588,036	2,588,036	-	-
International funds	1,239,122	1,239,122	-	-
Long-short funds	603,901	603,901	-	-
Large cap funds	1,265,535	1,265,535	-	-
Small/mid cap funds	1,364,425	1,364,425	-	-
Other funds	11,345	11,345	-	-
<i>Corporate Stock:</i>				
Consumer discretionary	102,895	102,895	-	-
Consumer staples	41,010	41,010	-	-
Energy	194,195	194,195	-	-
Financials	344,091	344,091	-	-
Health Care	183,317	183,317	-	-
Industrial	82,925	82,925	-	-
Information technology	167,538	167,538	-	-
Materials	90,474	90,474	-	-
Utilities	16,370	16,370	-	-
<i>Money Market Funds</i>	595,141	595,141	-	-
<i>Cash Surrender Value:</i>				
Life Insurance	61,395	-	-	61,395
<i>Beneficial interest in</i>				
<i>perpetual trust</i>	1,247,621	-	1,247,621	-
<i>Low volatility hedge fund</i>	109,591	-	-	109,591
	\$ 13,638,007	12,219,400	1,247,621	170,986
 <i><u>Liabilities</u></i>				
Annuities payable	\$ 75,892	-	-	75,892

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Notes to Combined Financial Statements

The following table sets forth a summary of changes in fair value of assets and liabilities using significant unobservable inputs (Level 3) for the years ended June 30, 2012 and 2011:

	Hedge Funds	Cash Surrender Value	Annuities Payable
Balances at June 30, 2010	\$ 280,118	77,339	83,707
Purchases, sales and settlements (net)	(170,320)	(18,331)	(7,815)
Change in fair value due to change in available market data and certain assumptions	<u>(207)</u>	<u>2,387</u>	<u>-</u>
Balances at June 30, 2011	109,591	61,395	75,892
Purchases, sales and settlements (net)	(57,916)	17,169	(3,017)
Change in fair value due to change in available market data and certain assumptions	<u>9,120</u>	<u>(10,978)</u>	<u>-</u>
Balances at June 30, 2012	<u>\$ 60,795</u>	<u>67,586</u>	<u>72,875</u>

(17) Subsequent Events

The Organization has evaluated subsequent events through October 26, 2012, the date the financial statements were available for issuance.

Subsequent to June 30, 2012, the Organization was awarded approximately \$2.2 million in new funding from the Children’s Board of Hillsborough County for the provision of county-wide case management services to children ranging from three to eight years of age in the Supporting and Empowering Educational and Developmental Services (SEEDS) program. In addition, the Organization was awarded a \$750,000 Federal grant from the U.S. Department of Health and Human Services, Administration for Children and Families, to fund the Kinship Interdisciplinary Navigation Technologically-Advanced Model (Kin-Tech) program.

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SUPPLEMENTARY FINANCIAL INFORMATION

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Schedule of Expenditures of Federal Awards and State Financial Assistance

Year ended June 30, 2012

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Federal/State Agency Pass-through Entity Federal Program	CFDA/ CSFA No.	Contract/ Grant No.	Expenditures	Transfers To Subrecipients
<i>U.S. Department of Agriculture</i>				
Passed-through State of Florida Department of Education:				
National School Breakfast Program	10.553	01-0131	\$ 30,211	-
National School Lunch Program	10.555	01-0131	20,495	-
			<u>50,706</u>	<u>-</u>
Passed-through State of Florida Department of Agriculture :				
Food Donation Program	10.550	24042	4,037	-
			<u>54,743</u>	<u>-</u>
<i>U.S. Department of Health and Human Services</i>				
Passed-through Hillsborough Kids, Inc.:				
Promoting Safe and Stable Families	93.556	HKIJ-107	363	-
Temporary Assistance to Needy Families	93.558	HKIJ-107	13,700	-
Child Welfare Services_State Grants	93.645	HKIJ-107	2,641	-
Foster Care_Title IV-E	93.658	HKIJ-107	91,714	-
Adoption Assistance	93.659	HKIJ-107	5,776	-
Social Services Block Grant	93.667	HKIJ-107	48,184	-
Promoting Safe and Stable Families	93.556	HKIJ-146	546	-
Temporary Assistance to Needy Families	93.558	HKIJ-146	19,482	-
Child Welfare Services_State Grants	93.645	HKIJ-146	3,965	-
Foster Care_Title IV-E	93.658	HKIJ-146	40,850	-
Adoption Assistance	93.659	HKIJ-146	8,346	-
Foster Care_Title IV-E	93.658	HKIJ-106	360,905	-
Social Services Block Grant	93.667	HKIJ-106	279,451	-
			<u>875,923</u>	<u>-</u>
Passed-through Sarasota Family YMCA:				
Temporary Assistance to Needy Families	93.558	OHC Agreement	431	-
Child Welfare Services_State Grants	93.645	OHC Agreement	172	-
Foster Care_Title IV-E	93.658	OHC Agreement	34,722	-
Adoption Assistance	93.659	OHC Agreement	517	-
Social Services Block Grant	93.667	OHC Agreement	22,832	-
Block Grants for Community Mental Health Services	93.958	OHC Agreement	431	-
			<u>59,105</u>	<u>-</u>
Passed-through Heartland for Children, Inc.:				
Foster Care_Title IV-E	93.658	RA-HCI01	231,085	-
Social Services Block Grant	93.667	RA-HCI01	119,500	-
			<u>350,585</u>	<u>-</u>
Passed-through Healthy Start Coalition of Hillsborough County, Inc.:				
Temporary Assistance to Needy Families	93.558	HF-10-11-2	85,907	-
			<u>85,907</u>	<u>-</u>

THE CHILDREN'S HOME

Schedule of Expenditures of Federal Awards and State Financial Assistance

Year ended June 30, 2012
(Page 2 of 2)

<u>Pass-through Entity Federal Program</u>	<u>CFDA/ CSFA No.</u>	<u>Contract/ Grant No.</u>	<u>Expenditures</u>	<u>Transfers To Subrecipients</u>
Passed-through Eckerd Youth Alternatives, Inc.:				
Foster Care_Title IV-E	93.658	ECA-KIN-TCH-FY12	\$ 9,972	-
		ECA-HRC-TCH-FY12	115,246	-
Promoting Safe and Stable Families	93.556	ECA-KIN-TCH-FY12	138	-
		ECA-HRC-TCH-FY12	3	-
Temporary Assistance for Needy Families (TANF)	93.558	ECA-KIN-TCH-FY12	5,462	-
		ECA-HRC-TCH-FY12	124	-
Child Welfare Services_State Grants	93.645	ECA-KIN-TCH-FY12	1,006	-
		ECA-HRC-TCH-FY12	23	-
Adoption Assistance	93.659	ECA-KIN-TCH-FY12	2,073	-
		ECA-HRC-TCH-FY12	47	-
Social Services Block Grant	93.667	ECA-HRC-TCH-FY12	81,975	-
Child Abuse and Neglect Grants	93.669	ECA-KIN-TCH-FY12	1,309	-
			<u>217,378</u>	<u>-</u>
Subtotal - U.S. Department of Health and Human Services			<u>1,588,898</u>	<u>-</u>
Total Expenditures of Federal Awards			<u>\$ 1,643,641</u>	<u>-</u>
Passed-through Hillsborough Kids, Inc.:				
Community Based Care Supports	60.094	HKIJ-107	\$ 83,130	-
		HKIJ-146	67,912	-
		HKIJ-106	207,529	-
Passed-through Eckerd Youth Alternatives, Inc.:				
Community Based Care Supports	60.094	ECA-KIN-TCH-FY2012	28,665	-
		ECA-HRC-TCH-FY12	73,597	-
Passed-through Sarasota Family YMCA:				
Community Based Care Supports	60.094	OHC Agreement	27,054	-
Passed-through Heartland for Children, Inc.:				
Community Based Care Supports	60.094	RA-HCI01	<u>192,310</u>	<u>-</u>
Subtotal - Department of Children and Families			<u>680,197</u>	<u>-</u>
Total State Financial Assistance			<u>\$ 680,197</u>	<u>-</u>

See accompanying notes to Schedule of Expenditures of Federal Awards and State Financial Assistance.

THE CHILDREN'S HOME

Notes to Schedule of Expenditures of Federal Awards and State Financial Assistance

Year ended June 30, 2012
(Page 1 of 2)

(1) **Basis of Presentation**

The accompanying Schedule of Expenditures of Federal Awards and State Financial Assistance (the Schedule) includes the federal and state grant activity of The Children's Home under programs of the federal government and state grant activity of the State of Florida for the year ended June 30, 2012. The information in the Schedule is presented in accordance with the requirements of OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations and Chapter 10.650, Rules of the State of Florida Auditor General. Because the Schedule presents only a selected portion of the operations of The Children's Home, it is not intended to and does not present the combined financial position, changes in net assets, or cash flows of The Children's Home.

(2) **Summary of Significant Accounting Policies**

Expenditures reported on the Schedule are reported on the accrual basis of accounting. Such expenditures are recognized following the cost principles contained in OMB Circular A-122, Cost Principles for Non-Profit Organizations, wherein certain types of expenditures are not allowable or are limited as to reimbursement.

(3) **Food Donation**

Nonmonetary assistance is reported in the Schedule at the fair market value of the commodities received and disbursed and totaled \$4,037.

(4) **Subrecipients**

None of the expenditures of federal awards and state financial assistance included in the Schedule were paid or provided to subrecipients.

(5) **Other**

The accompanying Schedule presents federal expenditures and state financial assistance by pass-through agency. Expenditures of certain federal programs and state projects were awarded to the Children's Home by more than one pass-through agency or under more than one contract.

THE CHILDREN'S HOME

Notes to Schedule of Expenditures of Federal Awards of State Financial Assistance

Year ended June 30, 2012

(Page 2 of 2)

Total federal expenditures by federal program for the year ended June 30, 2012 were as follows:

<u>CFDA No.</u>	<u>Federal Program</u>	<u>Federal Expenditures</u>
10.550	Food Donation Program	\$ 4,037
10.553	National School Breakfast Program	30,211
10.555	National School Lunch Program	20,495
93.556	Promoting Safe and Stable Families	1,050
93.558	Temporary Assistance to Needy Families	125,106
93.645	Child Welfare Services_State Grants	7,807
93.658	Foster Care_Title IV-E	884,494
93.659	Adoption Assistance	16,759
93.667	Social Services Block Grant	551,942
93.669	Child Abuse and Neglect Grants	1,309
93.958	Block Grants for Community Mental Health Services	431
		<u>\$ 1,643,641</u>

THE CHILDREN'S HOME

Schedule of Local Contracts and Awards

Year ended June 30, 2012

<u>Grantor/Pass-Through</u>	<u>Grantor/ Pass-Through No.</u>	<u>Accrued Revenue at June 30, 2011</u>	<u>Cash Received</u>	<u>Revenue Recognized and/or Reimbursable Expenses</u>	<u>Accrued Revenue at June 30, 2012</u>
Healthy Start Coalition of Hillsborough County, Inc.	HF-10-11-2	\$ 83,763	997,331	1,030,373 *	116,805
Hillsborough Board of County Commissioners	11-0067/11-1120	7,939	94,141	95,110	8,908
Department of Children's Services of Hillsborough County	90CU0043	11,208	123,290	134,498 *	22,416
Hillsborough County Children's Board	-	61,662	509,227	494,879	47,314
Tampa Metropolitan Area YMCA, Inc.	-	126,521	885,771	814,042	54,792
Central Florida Behavioral Health Network	-	43,265	84,754	41,489	-
Juvenile Welfare Board of Pinellas County	-	162,715	1,094,117	1,082,153	150,751
Heartland for Children, Inc.	RA-HCI01	138,931	635,251	547,236 *	50,916
Eckerd Youth Alternatives, Inc.	ECA-KIN-TCH-FY12 ECA-HRC-TCH-FY12	11,089	290,527	321,399 *	41,961
Hillsborough Kids, Inc.	HKIJ106/HKIJ146 HKIJ107	<u>99,937</u>	<u>1,239,401</u>	<u>1,261,303</u> *	<u>121,839</u>
Total local contracts and awards		\$ <u>747,030</u>	<u>5,953,810</u>	<u>5,822,482</u>	<u>615,702</u>

* Includes federal expenditures and/or state financial assistance.

THE CHILDREN'S HOME

Combining Schedule of Statement of Financial Position Information

June 30, 2012

	The Children's Home Community, Inc.	The Children's Home, Inc.	The Children's Home Community- Based Care, Inc.	The Children's Home Properties, Inc.	The Children's Home Foundation, Inc.	The Children's Imagination Center, Inc.	Eliminations	Combined Total
Assets								
Cash	\$ -	182,787	-	-	20,133	-	-	202,920
Receivables:								
Grants and contracts	-	630,939	-	-	-	-	-	630,939
Medicaid	-	105,323	-	-	-	-	-	105,323
Accrued interest	-	-	-	-	20,965	-	-	20,965
Contributions	-	464,287	-	-	-	-	-	464,287
Contribution of use of School facility	-	1,904,642	-	-	-	-	-	1,904,642
Intercompany	670,568	-	-	3,156,670	964,255	-	(4,791,493)	-
Investments	-	106,875	-	-	11,791,132	-	-	11,898,007
Prepaid expenses and other assets	-	104,779	-	-	30,326	-	-	135,105
Cash surrender value of life insurance	-	-	-	-	67,586	-	-	67,586
Beneficial interest in a perpetual trust	-	-	-	-	1,193,764	-	-	1,193,764
Net property and equipment	-	3,721,610	-	421,313	-	-	-	4,142,923
	\$ <u>670,568</u>	<u>7,221,242</u>	<u>-</u>	<u>3,577,983</u>	<u>14,088,161</u>	<u>-</u>	<u>(4,791,493)</u>	<u>20,766,461</u>
Liabilities and Net Assets (Deficit)								
Liabilities:								
Line of credit	\$ -	25,000	-	-	-	-	-	25,000
Accounts payable-								
Trade	-	225,340	-	-	-	-	-	225,340
Intercompany	-	4,332,095	458,978	-	-	420	(4,791,493)	-
Deferred lease incentive and accrued rent expense	-	82,007	-	-	-	-	-	82,007
Other accrued expenses	-	455,484	-	-	-	-	-	455,484
Deferred revenue	-	-	-	-	-	-	-	-
Estimated third-party payor liabilities	-	22,000	-	-	-	-	-	22,000
Annuities payable	-	72,875	-	-	-	-	-	72,875
Capital lease obligations	-	-	-	-	-	-	-	-
Total liabilities	-	5,214,801	458,978	-	-	420	(4,791,493)	882,706
Net assets (deficit)	<u>670,568</u>	<u>2,006,441</u>	<u>(458,978)</u>	<u>3,577,983</u>	<u>14,088,161</u>	<u>(420)</u>	<u>-</u>	<u>19,883,755</u>
	\$ <u>670,568</u>	<u>7,221,242</u>	<u>-</u>	<u>3,577,983</u>	<u>14,088,161</u>	<u>-</u>	<u>(4,791,493)</u>	<u>20,766,461</u>

THE CHILDREN'S HOME

Combining Schedule of Unrestricted Support and Revenue, Expenses
and Other Changes in Unrestricted Net Assets

Year ended June 30, 2012

	<u>The Children's Home Community, Inc.</u>	<u>The Children's Home, Inc.</u>	<u>The Children's Home Community- Based Care, Inc.</u>	<u>The Children's Home Properties, Inc.</u>	<u>The Children's Home Foundation, Inc.</u>	<u>The Children's Imagination Center, Inc.</u>	<u>Eliminations</u>	<u>Combined Total</u>
Operating Support and Revenue:								
<i>Public support:</i>								
Special event revenue	\$ -	503,211	-	-	-	-	-	503,211
Less special event costs	-	(327,992)	-	-	-	-	-	(327,992)
Net revenue from special events	-	175,219	-	-	-	-	-	175,219
United Way Contributions	-	163,589	-	-	-	-	-	163,589
Bequests	-	1,666,461	-	-	6,189	-	(842,426)	830,224
Government fees and grants	-	30,630	-	-	577,195	-	-	607,825
	-	5,840,977	-	-	-	-	-	5,840,977
	-	7,876,876	-	-	583,384	-	(842,426)	7,617,834
<i>Revenue:</i>								
Investment return designated for current operations	-	-	-	-	925,000	-	-	925,000
Medicaid	-	762,801	-	-	-	-	-	762,801
Program service fees	-	16,738	-	-	-	-	-	16,738
In-kind	-	593,254	-	-	-	-	-	593,254
Other	-	3,524	-	-	-	-	-	3,524
	-	1,376,317	-	-	925,000	-	-	2,301,317
<i>Net assets released from restrictions:</i>								
Expiration of time restrictions on United Way funding	-	45,219	-	-	-	-	-	45,219
Expiration of time restrictions on bequests	-	125,400	-	-	-	-	-	125,400
Satisfaction of donor restrictions	-	237,937	-	-	-	-	-	237,937
	-	408,556	-	-	-	-	-	408,556
Total operating support and revenue	-	9,661,749	-	-	1,508,384	-	(842,426)	10,327,707

Operating Expenses:

Program services	-	8,106,930	-	-	-	-	-	8,106,930
Supporting services:								
Management and general	-	1,412,928	-	-	15	-	-	1,412,943
Development and public information	-	503,959	-	-	-	-	-	503,959
	<u>-</u>	<u>1,916,887</u>	<u>-</u>	<u>-</u>	<u>15</u>	<u>-</u>	<u>-</u>	<u>1,916,902</u>
 Total operating expenses	<u>-</u>	<u>10,023,817</u>	<u>-</u>	<u>-</u>	<u>15</u>	<u>-</u>	<u>-</u>	<u>10,023,832</u>
 Increase (decrease) in unrestricted net assets from operations	-	(362,068)	-	-	1,508,369	-	(842,426)	303,875

Other Changes:

Increase (decrease) in fair value of investment portfolio over amounts designated for current operations	-	3,228	-	-	(1,083,255)	-	-	(1,080,027)
Contributions made to affiliate	-	-	-	-	(842,426)	-	842,426	-
Change in value of split-interest agreements	-	(16,283)	-	-	-	-	-	(16,283)
	<u>-</u>	<u>(16,283)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(16,283)</u>
 Increase (decrease) in unrestricted net assets	<u>\$ -</u>	<u>(375,123)</u>	<u>-</u>	<u>-</u>	<u>(417,312)</u>	<u>-</u>	<u>-</u>	<u>(792,435)</u>

INTERNAL CONTROL AND COMPLIANCE

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Independent Auditors' Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Combined Financial Statements Performed in Accordance with Government Auditing Standards

The Board of Directors
The Children's Home:

We have audited the combined financial statements of The Children's Home as of and for the year ended June 30, 2012, and have issued our report thereon dated October 26, 2012. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered The Children's Home's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of The Children's Home's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of The Children's Home's internal control over financial reporting.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether The Children's Home's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

We noted certain other matters that we reported to management of The Children's Home in a separate letter dated October 26, 2012.

This report is intended solely for the information and use of management, the Audit Committee, the Board of Directors, federal awarding agencies, State of Florida awarding agencies, and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Lewis, Birch & Ricardo, LLC

Clearwater, Florida
October 26, 2012

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Independent Auditors' Report on Compliance with Requirements That Could Have a Direct and Material Effect on Each Major Federal Program and State Project and Internal Control Over Compliance in Accordance with OMB Circular A-133 and Chapter 10.650, Rules of the State of Florida Auditor General

The Board of Directors
The Children's Home:

Compliance

We have audited the compliance of The Children's Home with the types of compliance requirements described in the "U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement," and the requirements described in the Department of Financial Services' State Projects Compliance Supplement that could have a direct and material effect on each of The Children's Home's major federal programs and state projects for the year ended June 30, 2012. The Children's Home's major federal programs and state projects are identified in the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to its major federal programs and state projects is the responsibility of The Children's Home's management. Our responsibility is to express an opinion on The Children's Home's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; OMB Circular A-133, "Audits of States, Local Governments, and Non-Profit Organizations" and Chapter 10.650, Rules of the Auditor General. Those standards, OMB Circular A-133, and Chapter 10.650, Rules of the Auditor General, require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program or state project occurred. An audit includes examining, on a test basis, evidence about The Children's Home's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on The Children's Home's compliance with those requirements.

In our opinion, The Children's Home complied, in all material respects, with the requirements referred to above that are applicable to its major federal programs and state projects for the year ended June 30, 2012.

Internal Control Over Compliance

Management of The Children's Home is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to federal programs and state projects. In planning and performing our audit, we considered The Children's Home's internal control over compliance with requirements that could have a direct and material effect on a major federal program or state project in order to determine our auditing procedures for the purpose of expressing our opinion on compliance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Organization's internal control over compliance.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program or state project on a timely basis. A material weakness in internal control over compliance is a deficiency, or a combination of deficiencies, in internal control over compliance such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program or state project will not be prevented, or detected and corrected on a timely basis.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above.

This report is intended solely for the information and use of management, the Audit Committee, the Board of Directors, federal awarding agencies, State of Florida awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Lewis, Birch & Ricardo, LLC

Clearwater, Florida
October 26, 2012

THE CHILDREN'S HOME

Schedule of Findings and Questioned Costs

Year ended June 30, 2012

(Page 1 of 2)

(A) Summary of Audit Results

1. The auditors' report expresses an unqualified opinion on the combined financial statements of The Children's Home.
2. No significant deficiencies relating to the audit of the combined financial statements are reported in the Independent Auditors' Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Combined Financial Statements Performed in Accordance with *Government Auditing Standards*.
3. No instances of noncompliance material to the financial statements of The Children's Home were disclosed during the audit.
4. No significant deficiencies relating to the audit of the major federal programs and state projects are reported in the Independent Auditors' Report on Compliance with Requirements That Could Have a Direct and Material Effect on Each Major Federal Program and State Project and on Internal Control Over Compliance in Accordance with OMB Circular A-133 and Chapter 10.650, Rules of the State of Florida Auditor General.
5. The auditors' report on compliance for the major federal award programs and state projects for The Children's Home expresses an unqualified opinion.
6. Audit findings relative to the major federal award programs and state projects for The Children's Home are reported in Part C. and Part D. of this schedule.
7. The programs tested as major federal programs and state projects were:

Federal Programs:

Foster Care_Title IV-E (CFDA No. 93.658)
Social Services Block Grant (CFDA No. 93.667)

State Projects:

Community Based Care Supports (CSFA No. 60.094)

8. The threshold for distinguishing Types A and B programs was \$300,000 for major federal programs and for major state projects.
9. The Children's Home was determined to be a low-risk auditee.

THE CHILDREN'S HOME

Schedule of Findings and Questioned Costs

Year ended June 30, 2012

(Page 2 of 2)

(B) Findings - Audit of Financial Statements

None.

(C) Findings and Questioned Costs - Major Federal Award Programs

None.

(D) Findings and Questioned Costs - Major State Financial Assistance Projects

None.

(E) Other Issues

A Summary Schedule of Prior Audit Findings is not required because there were no prior audit findings related to a major federal program or state project.

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The Board of Directors
The Children's Home

We have audited the financial statements of The Children's Home as of and for the year ended June 30, 2012, and have issued our report thereon dated October 26, 2012.

We conducted our audit in accordance with auditing standards generally accepted in the United States; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, Audits of States, Local Governments and Non-Profit Organizations. We have issued our independent auditors' report on internal control over financial reporting and on compliance and other matters, our independent auditors' report on compliance and internal control over compliance applicable to each major federal program and state project, and the schedule of findings and questioned costs. Disclosures in those reports and schedule, which are dated October 26, 2012, should be considered in conjunction with this management letter.

Additionally, our audit was conducted in accordance with Chapter 10.650, Rules of the Auditor General which requires disclosure in the management letter of violations of provisions of contracts or grant agreements, or abuse, that have an effect on the financial statements or state project in an amount that is less than material but more than inconsequential. In addition, for matters that have an inconsequential effect on the financial statements or state project amounts, considering both quantitative and qualitative factors, the following may be reported based on professional judgment: (1) violations of provisions of contracts or grant agreements, fraud, illegal acts, or abuse, that have occurred, or are likely to have occurred, and (2) deficiencies in internal control that are not significant deficiencies. Our audit disclosed the following matters required to be disclosed:

Pending Estate Bequests and Trusts

During our testing of pending estate bequests and trusts, we noted that in certain instances that the Organization's donor files appeared to be incomplete and we assisted management in requesting the missing documentation needed to facilitate an analysis of whether the pending bequests and trusts met the criteria for recognition in the Organization's financial statements. We recommend that management develop a checklist of the information which should be requested once the Organization has been notified of its interest in various wills and trusts. This additional procedure will enable the Development staff to provide the necessary information to Finance and Accounting to properly account for all pending bequests and trusts.

Management Response:

We have experienced turnover in our Development Staff and will implement training procedures to ensure staff understand the information needed to maintain complete donor files for pending bequests and trusts.

Peer Review of Foster Care Files

We noted during our testing of foster care files, that one of the Organization's internal control procedures is to conduct peer reviews of all foster care files on an annual basis. Out of our total sample of eight foster care files, we noted three foster care files were not subject to a peer review during fiscal 2012. However, we noted that the Organization has implemented other internal control procedures over compliance with foster care file documentation requirements and that our review of these three files did not identify any instances of noncompliance. Since the Organization has established the additional internal control procedure of having all foster care files subject to an annual peer review, we recommend that management implement a review procedure during the last month of the fiscal year to verify the peer reviews have been completed.

Management Response:

We agree with the recommendation and will implement a procedure to verify whether peer reviews of foster care files have been completed each year.

Pursuant to Chapter 119, Florida Statutes, this management letter is a public record and its distribution is not limited. Auditing standards generally accepted in the United States of America require us to indicate that the letter is intended solely for the information and use of the board of directors, management and the Florida Auditor General and is not intended to be and should not be used by anyone other than these specified parties.

Lewis, Birch & Ricardo, LLC

Clearwater, Florida
October 26, 2012