



**PRESBYTERIAN HOMES AND
FAMILY SERVICES, INCORPORATED**

LYNCHBURG, VIRGINIA

FINANCIAL STATEMENTS

**FOR YEARS ENDED
DECEMBER 31, 2012 AND 2011**

**PRESBYTERIAN HOMES AND
FAMILY SERVICES, INCORPORATED**

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ROBINSON, FARMER, COX ASSOCIATES

A PROFESSIONAL LIMITED LIABILITY COMPANY

CERTIFIED PUBLIC ACCOUNTANTS

INDEPENDENT AUDITORS' REPORT

The Board of Directors
Presbyterian Homes and Family Services, Incorporated
Lynchburg, Virginia

Report on Financial Statements

We have audited the accompanying financial statements of Presbyterian Homes and Family Services, Incorporated ("PHFS") (a nonprofit organization), which comprise the statement of financial position as of December 31, 2012 and 2011, and the related statements of activities, functional expenses, and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. 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. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Presbyterian Homes and Family Services, Incorporated as of December 31, 2012 and 2011, and the changes in its net assets and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

Other Matters

Other Information

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The accompanying schedule of expenditures of federal awards, as required by Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, is presented for purposes of additional analysis and is not a required part of the 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 financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the 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 financial statements as a whole.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated May 1, 2013, on our consideration of the Presbyterian Homes and Family Services, Incorporated's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of 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* in considering Presbyterian Homes and Family Services, Incorporated's internal control over financial reporting and compliance.

Robinson, Farmer, Co. Associates
Charlottesville, Virginia
May 1, 2013

FINANCIAL STATEMENTS

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PRESBYTERIAN HOMES AND FAMILY SERVICES, INCORPORATED

**Statements of Financial Position
At December 31, 2012 and 2011**

	2012	2011
Assets		
Cash and cash equivalents	\$ 1,832,527	\$ 415,722
Accounts receivable, net of allowance for uncollectible accounts of \$56,884 and \$50,156 in 2012 and 2011	411,038	424,403
Pledges receivable	409,645	313,163
Prepaid expenses	84,477	150,314
Bequests and gift annuities receivable	27,636	62,514
Beneficial interest in perpetual trusts	3,646,831	3,448,339
Investments	37,248,379	38,781,822
Land, buildings, and equipment, net of accumulated depreciation	13,889,659	14,997,802
Total assets	\$ 57,550,192	\$ 58,594,079
Liabilities and net assets		
Liabilities		
Accounts payable, trade	\$ 531,297	\$ 581,853
Accrued compensation and other expenses	344,110	356,940
Note payable	\$ 4,023,032	\$ 4,176,242
Total liabilities	\$ 4,898,439	\$ 5,115,035
Net Assets		
Unrestricted	\$ 43,782,343	\$ 44,944,067
Temporarily restricted	724,043	605,532
Permanently restricted	8,145,367	7,929,445
Total net assets	\$ 52,651,753	\$ 53,479,044
Total liabilities and net assets	\$ 57,550,192	\$ 58,594,079

The accompanying notes to financial statements are an integral part of this statement.

PRESBYTERIAN HOMES AND FAMILY SERVICES, INCORPORATED

Statement of Activities
Year Ended December 31, 2012

	2012			Total
	Unrestricted	Temporarily Restricted	Permanently Restricted	
Revenues, gains, and other support				
Contributions				
Bequests	\$ 462,661	\$ -	\$ -	\$ 462,661
Individuals, churches, foundations and corporations	568,441	437,722	21,302	1,027,465
In-kind donations	-	90,278	-	90,278
Total contributions	\$ 1,031,102	\$ 528,000	\$ 21,302	\$ 1,580,404
Program related revenue				
Tuition and resident fees	\$ 800,949	\$ -	\$ -	\$ 800,949
Medicaid	1,844,384	-	-	1,844,384
Grants	1,090,728	-	-	1,090,728
Product income	115,479	-	-	115,479
Other	1,046,327	-	-	1,046,327
Total program related revenue	\$ 4,897,867	\$ -	\$ -	\$ 4,897,867
Other revenue (loss)				
Investment return	\$ 4,179,001	\$ 92,119	\$ -	\$ 4,271,120
Distributions from perpetual trusts	41,163	103,949	-	145,112
Net unrealized gains, perpetual trusts	-	-	198,306	198,306
Net unrealized gains (loss), gift annuities	-	(331)	(3,686)	(4,017)
Other	17,899	109,684	-	127,583
Total other revenue (loss)	\$ 4,238,063	\$ 305,421	\$ 194,620	\$ 4,738,104
Net assets released from restrictions				
Satisfaction of restrictions	\$ 714,910	\$ (714,910)	\$ -	\$ -
Total revenues, gains, and other support	\$ 10,881,942	\$ 118,511	\$ 215,922	\$ 11,216,375
Expenses				
Supporting services				
Administrative services	\$ 1,850,161	\$ -	\$ -	\$ 1,850,161
Development	1,088,210	-	-	1,088,210
Program services				
Lynchburg Campus	4,371,242	-	-	4,371,242
Zuni Homes	3,047,941	-	-	3,047,941
Zuni Workshop	205,784	-	-	205,784
Satellite Homes	1,480,328	-	-	1,480,328
Total expenses	\$ 12,043,666	\$ -	\$ -	\$ 12,043,666
Changes in net assets	\$ (1,161,724)	\$ 118,511	\$ 215,922	\$ (827,291)
Net assets at beginning of year	44,944,067	605,532	7,929,445	53,479,044
Net assets at end of year	\$ 43,782,343	\$ 724,043	\$ 8,145,367	\$ 52,651,753

The accompanying notes to financial statements are an integral part of this statement.

PRESBYTERIAN HOMES AND FAMILY SERVICES, INCORPORATED

**Statement of Activities
Year Ended December 31, 2011**

	2011			Total
	Unrestricted	Temporarily Restricted	Permanently Restricted	
Revenues, gains, and other support				
Contributions				
Bequests	\$ 61,164	\$ 6,000	\$ -	\$ 67,164
Individuals, churches, foundations and corporations	637,754	465,350	25,750	1,128,854
In-kind donations	-	73,349	-	73,349
Total contributions	<u>\$ 698,918</u>	<u>\$ 544,699</u>	<u>\$ 25,750</u>	<u>\$ 1,269,367</u>
Program related revenue				
Tuition and resident fees	\$ 861,052	\$ -	\$ -	\$ 861,052
Medicaid	1,776,014	-	-	1,776,014
Grants	1,271,390	14,460	-	1,285,850
Product income	102,871	-	-	102,871
Other	702,493	-	-	702,493
Total program related revenue	<u>\$ 4,713,820</u>	<u>\$ 14,460</u>	<u>\$ -</u>	<u>\$ 4,728,280</u>
Other revenue (loss)				
Investment return	\$ (1,012,513)	\$ (4,581)	\$ -	\$ (1,017,094)
Distributions from perpetual trusts	59,124	136,766	-	195,890
Net unrealized (loss), perpetual trusts	-	-	(287,060)	(287,060)
Net unrealized gains (loss), gift annuities	-	(4,432)	(49,725)	(54,157)
Other	430,600	99,825	(296)	530,129
Total other revenue (loss)	<u>\$ (522,789)</u>	<u>\$ 227,578</u>	<u>\$ (337,081)</u>	<u>\$ (632,292)</u>
Net assets released from restrictions				
Satisfaction of restrictions	\$ 1,013,629	\$ (1,013,629)	\$ -	\$ -
Total revenues, gains, and other support	<u>\$ 5,903,578</u>	<u>\$ (226,892)</u>	<u>\$ (311,331)</u>	<u>\$ 5,365,355</u>
Expenses				
Supporting services				
Administrative services	\$ 1,535,334	\$ -	\$ -	\$ 1,535,334
Development	1,056,441	-	-	1,056,441
Program services				
Lynchburg	4,504,566	-	-	4,504,566
Zuni Homes	3,075,701	-	-	3,075,701
Zuni Workshop	185,486	-	-	185,486
Satellite Homes	1,487,494	-	-	1,487,494
Total expenses	<u>\$ 11,845,022</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 11,845,022</u>
Changes in net assets	\$ (5,941,444)	\$ (226,892)	\$ (311,331)	\$ (6,479,667)
Net assets at beginning of year	<u>50,885,511</u>	<u>832,424</u>	<u>8,240,776</u>	<u>59,958,711</u>
Net assets at end of year	<u>\$ 44,944,067</u>	<u>\$ 605,532</u>	<u>\$ 7,929,445</u>	<u>\$ 53,479,044</u>

The accompanying notes to financial statements are an integral part of this statement.

PRESBYTERIAN HOMES AND FAMILY SERVICES, INCORPORATED

**Statement of Functional Expenses
Year Ended December 31, 2012**

	Supporting Services		
	Administrative Services	Development	Total
Auto expenses	\$ 8,032	\$ 10,241	\$ 18,273
Board expenses	8,787	-	8,787
Direct Mail Appeals	-	61,584	61,584
Community relations	12,610	854	13,464
Computer expenses	119,189	-	119,189
Depreciation	58,158	-	58,158
Dues	3,538	1,292	4,830
Electricity and water	-	-	-
Employee insurance	92,955	52,890	145,845
Food purchases	-	-	-
Fuel	-	-	-
Horticulture program	-	-	-
Household supplies	-	-	-
In-kind donations	-	90,278	90,278
Insurance	28,219	-	28,219
Interest expense	152,310	-	152,310
Investment expenses	165,750	-	165,750
Medical attention and drugs	-	-	-
Miscellaneous	9,429	-	9,429
Office supplies	27,874	7,534	35,408
Payroll taxes	69,465	46,987	116,452
Peanut program	-	-	-
Pension	55,248	32,227	87,475
Postage	6,311	6,220	12,531
Printing	-	17,033	17,033
Professional fees	47,266	-	47,266
Professional resources	47,339	26,773	74,112
Promotion	1,122	147,942	149,064
Recreation	-	-	-
Rent	-	-	-
Repairs and maintenance	-	-	-
Salaries	901,481	541,674	1,443,155
School and education	-	-	-
Small equipment and tools	-	-	-
Staff training	12,990	23,430	36,420
Student/resident expenses	-	-	-
Telephone	7,933	7,668	15,601
Travel	14,155	13,583	27,738
	<u>\$ 1,850,161</u>	<u>\$ 1,088,210</u>	<u>\$ 2,938,371</u>

The accompanying notes to financial statements are an integral part of this statement.

Program Services					
Lynchburg	Zuni Homes	Zuni Workshop	Satellite Homes	Total	Total Expenses
\$ 88,715	\$ 88,148	\$ -	\$ 26,746	\$ 203,609	\$ 221,882
-	-	-	-	-	8,787
-	-	-	-	-	61,584
-	-	-	-	-	13,464
10,149	-	-	1,348	11,497	130,686
429,196	188,246	-	109,771	727,213	785,371
10,177	5,829	-	3,167	19,173	24,003
99,645	48,205	-	18,172	166,022	166,022
326,761	331,547	7,671	150,119	816,098	961,943
25,261	93,912	-	38,468	157,641	157,641
20,387	22,549	6,339	3,914	53,189	53,189
-	-	2,319	-	2,319	2,319
87,719	20,955	-	6,814	115,488	115,488
-	-	-	-	-	90,278
68,628	60,045	-	30,007	158,680	186,899
31	-	-	-	31	152,341
-	-	-	-	-	165,750
9,049	11,066	-	2,573	22,688	22,688
15,179	-	-	240	15,419	24,848
33,781	28,644	3,159	11,373	76,957	112,365
195,589	157,011	7,285	79,732	439,617	556,069
-	-	91,036	-	91,036	91,036
112,032	91,879	2,955	41,417	248,283	335,758
4,175	1,569	343	904	6,991	19,522
1,315	56	1,154	56	2,581	19,614
36,871	-	-	1,243	38,114	85,380
3,929	1,514	-	820	6,263	80,375
5,741	-	10,468	417	16,626	165,690
-	17,344	-	-	17,344	17,344
220,138	-	-	-	220,138	220,138
177,796	55,134	4,244	41,093	278,267	278,267
2,230,030	1,709,590	65,440	853,169	4,858,229	6,301,384
22,072	-	-	-	22,072	22,072
11,506	18,806	1,568	4,534	36,414	36,414
35,749	30,689	-	10,012	76,450	112,870
22,424	48,299	-	20,046	90,769	90,769
34,813	15,660	1,803	12,832	65,108	80,709
32,384	1,244	-	11,341	44,969	72,707
<u>\$ 4,371,242</u>	<u>\$ 3,047,941</u>	<u>\$ 205,784</u>	<u>\$ 1,480,328</u>	<u>\$ 9,105,295</u>	<u>\$ 12,043,666</u>

PRESBYTERIAN HOMES AND FAMILY SERVICES, INCORPORATED

Statement of Functional Expenses
Year Ended December 31, 2011

	Supporting Services		
	Administrative Services	Development	Total
Auto expenses	\$ 307	\$ 7,495	\$ 7,802
Board expenses	8,745	-	8,745
Direct Mail Appeals	-	60,025	60,025
Community relations	1,520	17,886	19,406
Computer expenses	8,556	5,671	14,227
Depreciation	70,157	-	70,157
Dues	5,049	2,188	7,237
Electricity and water	-	-	-
Employee insurance	69,446	52,830	122,276
Food purchases	-	-	-
Fuel	-	-	-
Horticulture program	-	-	-
Household supplies	-	-	-
In-kind donations	-	65,490	65,490
Insurance	29,840	14,664	44,504
Interest expense	143,871	-	143,871
Investment expenses	168,000	-	168,000
Medical attention and drugs	-	-	-
Miscellaneous	8,784	-	8,784
Office supplies	28,692	5,951	34,643
Payroll taxes	56,753	43,669	100,422
Peanut program	-	-	-
Pension	46,628	29,532	76,160
Postage	7,132	6,380	13,512
Printing	-	23,391	23,391
Professional fees	47,208	194	47,402
Professional resources	45,431	1,932	47,363
Promotion	1,445	123,839	125,284
Recreation	-	-	-
Rent	-	-	-
Repairs and maintenance	-	-	-
Salaries	764,293	540,319	1,304,612
School and education	-	-	-
Small equipment and tools	969	9	978
Staff training	6,141	33,866	40,007
Student/resident expenses	-	-	-
Telephone	3,585	8,754	12,339
Travel	12,782	12,356	25,138
	<u>\$ 1,535,334</u>	<u>\$ 1,056,441</u>	<u>\$ 2,591,775</u>

The accompanying notes to financial statements are an integral part of this statement.

Program Services					
Lynchburg	Zuni Homes	Zuni Workshop	Satellite Homes	Total	Total Expenses
\$ 98,389	\$ 90,887	\$ 34	\$ 23,338	\$ 212,648	\$ 220,450
-	-	-	-	-	8,745
-	-	-	-	-	60,025
-	-	-	-	-	19,406
38,494	28,329	1,093	17,156	85,072	99,299
399,371	192,237	-	116,656	708,264	778,421
15,929	905	-	170	17,004	24,241
97,476	51,767	-	18,177	167,420	167,420
310,011	324,571	6,909	162,758	804,249	926,525
32,532	90,903	-	35,938	159,373	159,373
25,560	25,771	7,177	3,810	62,318	62,318
-	-	2,287	-	2,287	2,287
98,582	21,358	-	6,779	126,719	126,719
-	-	-	-	-	65,490
74,497	66,672	-	36,660	177,829	222,333
3,011	-	-	-	3,011	146,882
-	-	-	-	-	168,000
17,386	11,465	-	5,845	34,696	34,696
12,080	-	-	-	12,080	20,864
36,066	27,354	2,690	11,119	77,229	111,872
180,502	144,806	5,908	70,947	402,163	502,585
-	-	67,033	-	67,033	67,033
101,733	100,456	2,582	48,745	253,516	329,676
3,890	1,890	175	978	6,933	20,445
2,708	1,948	127	-	4,783	28,174
36,832	971	37	588	38,428	85,830
2,415	2,720	7	1,081	6,223	53,586
13,494	1,845	23,025	796	39,160	164,444
-	6,857	-	-	6,857	6,857
397,590	-	-	-	397,590	397,590
160,724	72,304	5,160	27,493	265,681	265,681
2,148,742	1,688,001	57,985	845,696	4,740,424	6,045,036
22,879	-	-	-	22,879	22,879
16,639	23,933	1,458	5,301	47,331	48,309
32,499	36,868	85	10,715	80,167	120,174
55,873	43,815	-	20,820	120,508	120,508
38,437	15,395	1,696	13,316	68,844	81,183
30,225	1,673	18	2,612	34,528	59,666
<u>\$ 4,504,566</u>	<u>\$ 3,075,701</u>	<u>\$ 185,486</u>	<u>\$ 1,487,494</u>	<u>\$ 9,253,247</u>	<u>\$ 11,845,022</u>

PRESBYTERIAN HOMES AND FAMILY SERVICES, INCORPORATED

Statements of Cash Flows
Years Ended December 31, 2012 and 2011

	2012	2011
Cash flows from operating activities		
Change in net assets	\$ (827,291)	\$ (6,479,667)
Adjustments to reconcile change in net assets to net cash provided by (used for) operating activities		
Depreciation	785,371	778,421
(Gain) loss on disposal of plant assets	166,376	(15,581)
Realized and unrealized (gains) losses on investments	(2,522,198)	1,274,474
Income on investments	(1,748,922)	(257,380)
Contributions restricted for investment in permanent endowment	(21,302)	(25,750)
(Increase) decrease in operating assets:		
Accounts receivable, net	13,365	56,254
Pledges receivable	(96,482)	198,776
Prepaid expenses	65,837	9,138
Bequests and gift annuities receivable	34,878	70,542
Beneficial interest in perpetual trusts	(198,492)	287,060
Increase (decrease) in operating liabilities:		
Accounts payable, trade	(50,556)	(9,452)
Accrued compensation and other expenses	(12,830)	37,026
Deferred revenue	-	(145,974)
	<u>\$ (4,412,246)</u>	<u>\$ (4,222,113)</u>
Cash flows from investing activities		
Purchases of land, buildings, and equipment	\$ (427,228)	\$ (1,171,965)
Proceeds from sale of land, buildings, and equipment	583,624	37,966
Net change in investments	<u>5,804,563</u>	<u>4,927,503</u>
	<u>\$ 5,960,959</u>	<u>\$ 3,793,504</u>
Cash flows from financing activities		
Contributions restricted for investment in permanent endowment	\$ 21,302	\$ 25,750
Principal retirement of note payable	<u>(153,210)</u>	<u>(133,982)</u>
	<u>\$ (131,908)</u>	<u>\$ (108,232)</u>
Net increase in cash and cash equivalents	\$ 1,416,805	\$ (536,841)
Cash and cash equivalents at beginning of year	<u>415,722</u>	<u>952,563</u>
Cash and cash equivalents at end of year	<u>\$ 1,832,527</u>	<u>\$ 415,722</u>

The accompanying notes to financial statements are an integral part of this statement.

PRESBYTERIAN HOMES AND FAMILY SERVICES, INCORPORATED

Notes to Financial Statements At December 31, 2012 and 2011

NOTE 1 – NATURE OF ORGANIZATION

The financial statements of Presbyterian Homes and Family Services, Incorporated (“PHFS”) have been prepared on the accrual basis. PHFS provides high-quality prevention, education, economic empowerment, mental health, and residential services to individuals, families, and communities. Various services are provided in many cities and counties across Virginia with offices or residential facilities located in Fredericksburg, Lexington, Lynchburg, Richmond, South Hill, and Zuni, Virginia. Accounting policies considered to be significant are described below.

In 2009 PHFS created PHFS Partners, LP for the purposes of applying for state historic renovation tax credits. During 2012 and 2011 PHFS received \$0 and \$680,000, respectively, in tax credits, which reduced the cost of the renovation projects. PHFS generated \$144,020 and \$365,779 in other income and incurred costs of \$146,250 and \$372,600 related to PHFS Partners, LP, which are included in rent expense for the years ended December 31, 2012 and 2011, respectively. The activity for PHFS Partners, LP has not been included in these financial statements.

NOTE 2 – SIGNIFICANT ACCOUNTING POLICIES

Financial Statement Presentation

PHFS is required to report 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.

Unrestricted net assets - Net assets that are not subject to donor-imposed stipulations. At December 31, 2012, the Organization had \$43,782,343 of unrestricted net assets.

Temporarily restricted net assets - Net assets subject to donor-imposed stipulations that may or will be met, either by actions of the Organization and/or the passage of time. When a restriction expires, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets released from restrictions. At December 31, 2012, the Organization had \$724,043 of temporarily restricted net assets.

Permanently restricted net assets - Net assets subject to donor-imposed or other legal restrictions requiring that all principal be maintained permanently by the Organization. Generally, the donors of these assets permit the Organization to use all or part of the income earned for either general or donor-specific purposes. At December 31, 2012, the Organization had \$8,145,367 of permanently restricted net assets.

Contributions

Unconditional promises to give are recorded in the period in which the promise is received and allowances are provided for promises estimated to be uncollectible. Promises to give are received from a broad base of individuals, churches, corporations, and foundations. Pledges and bequests expected to be received after one year have been discounted at a risk-free rate of return. Management records bequests receivable at a conservative estimate of asset value.

PRESBYTERIAN HOMES AND FAMILY SERVICES, INCORPORATED

Notes to Financial Statements At December 31, 2012 and 2011 (Continued)

NOTE 2 – SIGNIFICANT ACCOUNTING POLICIES: (CONTINUED)

Contributions: (Continued)

Contributions of cash are reported as temporarily restricted support if they are received with donor stipulations which limit their use. When donor restrictions are satisfied, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets released from restrictions. When donor restrictions are satisfied in the year the gift is recognized, the amounts are reported as unrestricted contributions.

Contributions of property and equipment are recorded as support at their estimated fair value. Such contributions are reported as unrestricted support unless the donor has restricted the contributed asset to a specific purpose. Assets contributed with explicit restrictions regarding their use and contributions of cash that must be used to acquire property and equipment are reported as restricted support. Absent donor stipulations regarding how long those contributed assets must be maintained, PHFS reports expirations of donor restrictions when the contributed or acquired assets are placed in service as instructed by the donor. PHFS reclassifies temporarily restricted net assets to unrestricted net assets at that time.

Cash and cash equivalents

PHFS considers cash and cash equivalents to include cash on hand and temporary investments purchased with an original maturity of three months or less.

PHFS has been designated as representative payee for a number of residents receiving benefits from the Social Security Administration (“SSA”). In accordance with SSA guidelines, PHFS maintains a separate bank account for funds received on behalf of these residents.

Land, buildings, and equipment

Land, buildings, and equipment are stated at cost. Depreciation of buildings and equipment is provided over the estimated useful lives of the respective assets on a straight line basis. Betterments and major renewals which extend the lives of properties are capitalized and maintenance, repairs, and minor renewals are expensed as costs are incurred. Acquisitions of buildings and equipment in excess of \$2,500 are capitalized.

Investments

Investments in equity securities with readily determinable fair values and all investments in debt securities are reported at their fair values, as determined by quoted market prices, in the statements of financial position. Investments in private investment funds are reported at estimated fair value. Realized and unrealized gains and losses on investments are reflected in the statements of activities. Management believes the carrying value of real estate investments is not less than fair market value. Investment return that is restricted by the donor is reported as an increase in unrestricted net assets if the restriction expires or is satisfied during the reporting period in which the investment return is recognized.

PHFS has a spending policy, based on the total return concept that governs the rate at which funds are transferred from the Endowment Fund to the operating budget. The spending policy, in general, allows for spending at a specified percentage of average investment market value for the previous twelve quarters. The spending rate is determined annually by the Programs and Resources Committee as part of the budgeting process.

PRESBYTERIAN HOMES AND FAMILY SERVICES, INCORPORATED

Notes to Financial Statements
At December 31, 2012 and 2011 (Continued)

NOTE 2 – SIGNIFICANT ACCOUNTING POLICIES: (CONTINUED)

Accounts receivable

Accounts receivable consist of amounts due from Medicaid, governmental agencies, third-party payers, and individuals for program service fees and are stated at invoiced amount less an allowance for uncollectible accounts. Management's determination of the allowance for uncollectible accounts is based on an evaluation of the accounts receivable, past experience, current economic conditions, and other risks inherent in the accounts receivable portfolio.

Income Taxes

PHFS is exempt from income taxes under Section 501 (c)(3) of the Internal Revenue Code. In addition, PHFS has been determined by the Internal Revenue Service not to be a private foundation within the meaning of Section 509(a) of the Code.

Contributed services

PHFS receives services from a variety of unpaid volunteers. Contributed services are recognized in the financial statements only if they create or enhance nonfinancial assets or if they require specialized skills and would typically need to be purchased if not received by contribution.

Use of estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

NOTE 3 – INVESTMENTS

Investments are presented in the financial statements at fair value and are comprised of the following as of December 31:

	<u>2012</u>	<u>2011</u>
Temporary investments	\$ 2,678,142	\$ 5,737,551
Bonds	2,535,000	2,755,831
Corporate stocks, domestic	5,971,000	4,502,499
Corporate stocks, foreign	11,586,000	8,404,166
Private investment funds	<u>14,478,237</u>	<u>17,381,775</u>
Total	<u>\$ 37,248,379</u>	<u>\$ 38,781,822</u>

PRESBYTERIAN HOMES AND FAMILY SERVICES, INCORPORATED

**Notes to Financial Statements
At December 31, 2012 and 2011 (Continued)**

NOTE 3 – INVESTMENTS: (CONTINUED)

Investment return for the years ended December 31, 2012 and 2011 consisted of the following:

	2012		
	Unrestricted	Temporarily Restricted	Total
Interest and dividends	\$ 1,729,966	\$ 62,298	\$ 1,792,264
Realized and unrealized gains, net	2,490,873	31,325	2,522,198
Management fees	(41,838)	(1,504)	(43,342)
Total investment return (loss)	<u>\$ 4,179,001</u>	<u>\$ 92,119</u>	<u>\$ 4,271,120</u>
	2011		
	Unrestricted	Temporarily Restricted	Total
Interest and dividends	\$ 315,411	\$ 10,120	\$ 325,531
Realized and unrealized gains, net	(1,261,963)	(12,511)	(1,274,474)
Management fees	(65,961)	(2,190)	(68,151)
Total investment return (loss)	<u>\$ (1,012,513)</u>	<u>\$ (4,581)</u>	<u>\$ (1,017,094)</u>

PHFS has investments with six fund managers which invest in private investment funds as part of PHFS's asset allocation. The investment in private investment funds is an alternative investment strategy with the purpose of increasing the diversification of PHFS's holdings and is consistent with PHFS's overall investment objectives. The private investment funds are not traded on any organized exchange, and accordingly, investments in such funds may not be as liquid as investments in marketable equity or debt securities. The private investment funds may invest in other private investment funds, equity or debt securities which may or may not have readily available fair values, and foreign exchange or commodity forward contracts.

NOTE 4 – BENEFICIAL INTEREST IN PERPETUAL TRUSTS AND GIFT ANNUITIES

PHFS is the beneficiary of various trusts created by donors, the assets of which are not in the possession of PHFS. PHFS has enforceable rights and claims to these assets, including the right to the income earned by the trust assets. Net realized and unrealized gains and losses related to the beneficial interests are reported as changes in permanently restricted net assets. PHFS's beneficial interests in these trusts are carried at the fair value of the trust assets held for PHFS's benefit.

The gift annuities provide the annuitants with income for life, after which the designated remaining funds will be distributed to PHFS as directed by the donor. The amount of gift annuities is reported at present value net of the amounts that are expected to be paid to the donors during their lifetime. The gift annuities are discounted at 6%. These actuarially determined amounts fluctuate over time according to the life expectancies of the donors.

PRESBYTERIAN HOMES AND FAMILY SERVICES, INCORPORATED

Notes to Financial Statements
At December 31, 2012 and 2011 (Continued)

NOTE 5 – PLEDGES, BEQUESTS, AND GIFT ANNUITIES RECEIVABLE

Pledges and bequests receivable at December 31, 2012 and 2011 are as follows:

	<u>2012</u>	<u>2011</u>
Receivable in less than one year	\$ 206,727	\$ 296,376
Receivable in one to five years	<u>237,051</u>	<u>85,966</u>
Total pledges and bequests receivable	\$ 443,778	\$ 382,342
Less discounts to net present value	\$ (2,017)	\$ (2,185)
Less allowance for uncollectible	<u>(4,480)</u>	<u>(4,480)</u>
Net pledges and bequests receivable	<u>\$ 437,281</u>	<u>\$ 375,677</u>

Bequests receivable include gifts totaling \$18,882 and \$22,899 as of December 31, 2012 and 2011, respectively, which represent amounts receivable under gift annuity agreements which are administered by the Presbyterian Church (U.S.A.) Foundation (the “Foundation”). These agreements were established between the Foundation and the donor with PHFS being named as the beneficiary. The Foundation is responsible for investing these funds and making required payments to annuitants. PHFS has recorded as assets the net present value of the amounts expected to be received after all required payments to annuitants have been made. Pledges and bequests receivable in more than one year are discounted at 5%. Uncollectible pledges and bequests are expected to be 5% of the balance.

NOTE 6 – RESTRICTIONS ON NET ASSETS

Unrestricted net assets include \$86,991 and \$86,362 in Board designated amounts as of December 31, 2012 and 2011, respectively.

Temporarily restricted net assets are available for the following purposes as of December 31:

	<u>2012</u>	<u>2011</u>
Community trust endowment	\$ 10,239	\$ 10,239
Bequests and gift annuities receivable	14,977	46,169
Pledges receivable	404,350	307,681
Advanced education	<u>294,477</u>	<u>241,443</u>
Total	<u>\$ 724,043</u>	<u>\$ 605,532</u>

PRESBYTERIAN HOMES AND FAMILY SERVICES, INCORPORATED

Notes to Financial Statements
At December 31, 2012 and 2011 (Continued)

NOTE 6 – RESTRICTIONS ON NET ASSETS: (CONTINUED)

Permanently restricted net assets consist of the following as of December 31:

	<u>2012</u>	<u>2011</u>
Permanently restricted endowment funds	\$ 4,480,582	\$ 4,459,280
Beneficial interest in perpetual trusts	3,646,831	3,448,339
Pledges receivable	5,295	5,481
Gift annuities receivable	<u>12,659</u>	<u>16,345</u>
Total	<u>\$ 8,145,367</u>	<u>\$ 7,929,445</u>

NOTE 7 – ACCOUNTS RECEIVABLE

Accounts receivable include \$106,915 and \$110,275 at December 31, 2012 and 2011, respectively, for services rendered under the Medicaid health insurance program in connection with the operation of adult group homes. All other accounts receivable are due primarily from governmental agencies, third-party payers, and individuals.

NOTE 8 – LAND, BUILDINGS, AND EQUIPMENT

Land, buildings, and equipment consist of the following as of December 31:

	<u>2012</u>		
	<u>Cost</u>	<u>Accumulated Depreciation</u>	<u>Book Value</u>
Land and improvements	\$ 4,818,260	\$ 841,695	\$ 3,976,565
Buildings and improvements	15,313,674	6,567,641	8,746,033
Machinery and equipment	1,987,240	1,521,044	466,196
Automobiles	1,300,953	1,094,031	206,922
Furniture and fixtures	1,579,536	1,158,255	421,281
Construction in progress	<u>72,662</u>	<u>-</u>	<u>72,662</u>
	<u>\$ 25,072,325</u>	<u>\$ 11,182,666</u>	<u>\$ 13,889,659</u>

PRESBYTERIAN HOMES AND FAMILY SERVICES, INCORPORATED

Notes to Financial Statements
At December 31, 2012 and 2011 (Continued)

NOTE 8 – LAND, BUILDINGS, AND EQUIPMENT: (CONTINUED)

	2011		
	Cost	Accumulated Depreciation	Book Value
Land and improvements	\$ 5,543,053	\$ 784,948	\$ 4,758,105
Buildings and improvements	15,202,950	6,156,825	9,046,125
Machinery and equipment	1,909,247	1,364,670	544,577
Automobiles	1,195,153	1,010,221	184,932
Furniture and fixtures	1,532,867	1,080,631	452,236
Construction in progress	11,827	-	11,827
	<u>\$ 25,395,097</u>	<u>\$ 10,397,295</u>	<u>\$ 14,997,802</u>

NOTE 9 – RETIREMENT PLAN

PHFS has a tax deferred annuity plan which covers substantially all full-time employees. The plan includes provisions for voluntary employee contributions and discretionary contributions by PHFS. After twelve months of service, employees are eligible for discretionary contributions made by PHFS. During the years ended December 31, 2012 and 2011, PHFS elected to contribute an amount equal to 7% of eligible payroll. Contributions to the plan amounted to \$335,758 and \$329,676 in 2012 and 2011, respectively.

NOTE 10 – COMMITMENTS AND CONTINGENCIES

During 1993, PHFS received a construction grant for the Waynesboro Group Home in the amount of \$133,000 under a subgrant agreement with the Virginia Department of Housing and Community Development. The terms of this subgrant agreement stipulate that PHFS is required to repay the full amount of the grant if the group home is not used for a period of ten years for permanent housing for homeless and handicapped individuals. The Virginia Department of Housing and Community Development holds a deed of trust on the Waynesboro Group Home real property as security under the subgrant agreement.

If the facility is disposed of during a 20 year period following the date of initial occupancy, all proceeds from the sale or disposition should be used to provide supportive housing or for the direct benefit of low income persons.

NOTE 11 – FUNCTIONAL EXPENSES

The costs of providing the various programs and other activities have been summarized on a functional basis in the statements of activities. Accordingly, certain costs have been allocated among the programs and supporting services benefited.

PRESBYTERIAN HOMES AND FAMILY SERVICES, INCORPORATED

Notes to Financial Statements
At December 31, 2012 and 2011 (Continued)

NOTE 12 – SIGNIFICANT GROUP CONCENTRATIONS OF CREDIT RISK

PHFS maintains cash balances at financial institutions located within its market area. The amount at each institution is insured by the Federal Deposit Insurance Corporation (FDIC) up to \$250,000. From time to time, the balances maintained at one or more institutions may exceed the maximum amount insured by the FDIC.

NOTE 13 – RELATED PARTY

A member of the Board of Directors is the President of a staffing agency which PHFS uses. Expenses paid to the staffing agency during the years ended December 31, 2012 and 2011 amounted to \$29,233 and \$24,226, respectively.

A member of the Board of Directors is an employee of a local insurance company which PHFS uses as an agent for its employee benefits. The company receives a commission for the premiums PHFS pays to Anthem, Guardian, Piedmont, and Reliance. Premiums paid to these companies during the years ended December 31, 2012 and 2011 totaled \$1,028,813 and \$1,003,120, respectively.

NOTE 14 - NOTE PAYABLE

In January 2011, PHFS paid off the operating line of credit with a promissory note for \$4,312,430. This note is for a term of twenty years and bears interest for the first five years at 3.7%. Thereafter, it will bear interest at the Five Year Treasury Security Yield, as published in the Wall Street Journal, plus 4%. The interest rate will not go below 3.7% or above 7%. Principal and Interest are due in monthly payments of \$25,480 through January 21, 2016, then monthly payments of \$29,683 through January 21, 2031. The note is secured by investments owned by PHFS.

Annual payments of principal and interest are as follows:

<u>Year</u>	<u>Principal</u>	<u>Interest</u>
2013	\$ 159,616	146,144
2014	165,623	140,137
2015	171,856	133,904
2016	150,795	201,194
2017	157,368	198,824
2018-2022	945,526	835,429
2023-2027	989,725	435,039
2028-2031	<u>1,282,523</u>	<u>166,583</u>
Totals	<u>\$ 4,023,032</u>	<u>\$ 2,257,254</u>

PRESBYTERIAN HOMES AND FAMILY SERVICES, INCORPORATED

Notes to Financial Statements
At December 31, 2012 and 2011 (Continued)

NOTE 15 – ENDOWMENT

PHFS's endowment (Investment Pool) consists of approximately 13 individual funds established for a variety of purposes. Its endowment includes both donor-restricted endowment funds and funds designated by the Board of Directors to function as endowments. As required by GAAP, 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.

PHFS 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, PHFS 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) accumulation 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 organization in a manner consistent with the standard of prudence prescribed by SPMIFA. In accordance with SPMIFA, the organization considers the following factors, in making a determination to appropriate or accumulate donor-restricted endowment funds:

- (1) The duration and preservation of the fund
- (2) The purposes of the organization and the donor-restricted endowment fund
- (3) General economic conditions
- (4) The possible effect of inflation and deflation
- (5) The expected total return from income and the appreciation of investments
- (6) Other resources of the organization
- (7) The investment policies of the organization.

Endowment Net Asset Composition by Type of Fund as of December 31, 2012

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Donor-restricted endowment funds	\$ -	\$ 304,716	\$ 4,480,582	\$ 4,785,298
Board-designated endowment funds	<u>32,463,081</u>	-	-	<u>32,463,081</u>
Total Funds	<u>\$ 32,463,081</u>	<u>\$ 304,716</u>	<u>\$ 4,480,582</u>	<u>\$ 37,248,379</u>

Endowment Net Asset Composition by Type of Fund as of December 31, 2011

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Donor-restricted endowment funds	\$ -	\$ 251,682	\$ 4,459,280	\$ 4,710,962
Board-designated endowment funds	<u>34,070,860</u>	-	-	<u>34,070,860</u>
Total Funds	<u>\$ 34,070,860</u>	<u>\$ 251,682</u>	<u>\$ 4,459,280</u>	<u>\$ 38,781,822</u>

PRESBYTERIAN HOMES AND FAMILY SERVICES, INCORPORATED

Notes to Financial Statements
At December 31, 2012 and 2011 (Continued)

NOTE 15 – ENDOWMENT: (CONTINUED)

Changes in Endowment Net Assets for the Year Ended December 31, 2012

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets, beginning of year	\$ 34,070,860	\$ 251,682	\$ 4,459,280	\$ 38,781,822
Investment return:				
Net appreciation (realized and unrealized)	\$ 2,490,873	\$ 31,325	\$ -	\$ 2,522,198
Dividend income	1,729,966	62,298	-	1,792,264
Management fees	(41,838)	(1,504)	-	(43,342)
Total investment return	\$ 4,179,001	\$ 92,119	\$ -	\$ 4,271,120
Contributions	\$ 754,358	\$ 10,086	\$ 21,302	\$ 785,746
Appropriation of endowment assets for expenditure	\$ (6,541,138)	\$ (49,171)	\$ -	\$ (6,590,309)
Endowment net assets, end of year	\$ 32,463,081	\$ 304,716	\$ 4,480,582	\$ 37,248,379

Changes in Endowment Net Assets for the Year Ended December 31, 2011

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets, beginning of year	\$ 40,033,602	\$ 259,277	\$ 4,433,530	\$ 44,726,409
Investment return:				
Net depreciation (realized and unrealized)	\$ (1,261,963)	\$ (12,511)	\$ -	\$ (1,274,474)
Dividend income	315,411	10,120	-	325,531
Management fees	(65,961)	(2,190)	-	(68,151)
Total investment return	\$ (1,012,513)	\$ (4,581)	\$ -	\$ (1,017,094)
Contributions	\$ 310,594	\$ 7,766	\$ 25,750	\$ 344,110
Appropriation of endowment assets for expenditure	\$ (5,260,823)	\$ (10,780)	\$ -	\$ (5,271,603)
Endowment net assets, end of year	\$ 34,070,860	\$ 251,682	\$ 4,459,280	\$ 38,781,822

PRESBYTERIAN HOMES AND FAMILY SERVICES, INCORPORATED

Notes to Financial Statements At December 31, 2012 and 2011 (Continued)

NOTE 15 – ENDOWMENT: (CONTINUED)

Return Objectives and Risk Parameters

PHFS has adopted investment and spending policies for endowment assets that attempt to provide a predictable stream of funding to programs supported by its endowment while seeking to maintain the purchasing power of the endowment assets. Endowment assets include those assets that the organization must hold in perpetuity or for a donor-specified period as well as board-designated funds. Under this policy, as approved by the Board of Directors, the endowment assets are invested in a manner that is intended to accommodate investment styles and strategies that are considered reasonable and prudent, while providing long-term growth.

Strategies Employed for Achieving Objectives

To satisfy its long-term rate-of-return objectives, PHFS 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). PHFS 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

PHFS has a spending policy, based on the total return concept that governs the rate at which funds are transferred from the Endowment Fund to the operating budget. The spending policy, in general, allows for spending at a specified percentage of average investment market value for the previous twelve quarters. The spending rate is determined annually by the Programs and Resources Committee as part of the budgeting process.

NOTE 16 - INVESTMENTS FAIR VALUE MEASUREMENTS

Fair value for investments are determined as the exchange price that would be received for an asset or paid to transfer a liability (an exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants at the measurement date. The three-level fair value hierarchy prioritizes the inputs used to measure fair value. This hierarchy requires entities to maximize the use of observable inputs and minimize the use of unobservable inputs. The three levels of inputs used to measure fair value are as follows:

- Level 1 – Quoted prices in active markets for identical assets or liabilities.
- Level 2 – Observable inputs other than quoted prices included in Level 1, such as quoted prices for similar assets and liabilities in active markets; quoted prices for identical or similar assets and liabilities in markets that are not active; or other inputs that are observable or can be corroborated by observable market data.

PRESBYTERIAN HOMES AND FAMILY SERVICES, INCORPORATED

Notes to Financial Statements
At December 31, 2012 and 2011 (Continued)

NOTE 16 - INVESTMENTS FAIR VALUE MEASUREMENTS: (CONTINUED)

PHFS has investments with six fund managers which invest in private investment funds as part of PHFS's asset allocation. The investment in private investment funds is an alternative investment strategy with the purpose of increasing the diversification of PHFS's holdings and is consistent with PHFS's overall investment objectives. The private investment funds are not traded on any organized exchange, and accordingly, Investments in such funds may not be as liquid as investments in marketable equity or debt securities. The private investment funds may invest in other private investment funds, equity or debt securities which may or may not have readily available fair values, and foreign exchange or commodity forward contracts. Investments in private investment funds are reported at estimated fair value provided by fund managers. The framework permits to measure the fair value of its funds investments as it pro-rata interest in the net asset value (NAV) of such investment funds as reported by the fund management, if the NAV is prepared on a fair value basis as of December 31, 2012.

- Level 3 – Unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities. This includes certain pricing models, discounted cash flow methodologies and similar techniques that use significant unobservable inputs.

PHFS is providing the following information related to its investments:

	Fair Value Measurements at Reporting Date Using			
	12/31/2012	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Temporary investments	\$ 2,678,142	\$ 2,389,142	\$ 289,000	\$ -
Bonds	2,535,000	2,535,000	-	-
Corporate stocks, domestic	5,971,000	3,451,000	2,520,000	-
Corporate stocks, foreign	11,586,000	8,488,000	3,098,000	-
Private investment funds	14,478,237	7,282,000	7,196,237	-
Total	\$ 37,248,379	\$ 24,145,142	\$ 13,103,237	\$ -

	Fair Value Measurements at Reporting Date Using			
	12/31/2011	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Temporary investments	\$ 5,737,551	\$ 4,244,475	\$ 1,493,076	\$ -
Bonds	2,755,831	2,657,557	98,274	-
Corporate stocks, domestic	4,502,499	3,475,794	1,026,705	-
Corporate stocks, foreign	8,404,166	7,128,326	1,275,839	-
Private investment funds	17,381,775	8,244,129	9,137,647	-
Total	\$ 38,781,822	\$ 25,750,281	\$ 13,031,541	\$ -

PRESBYTERIAN HOMES AND FAMILY SERVICES, INCORPORATED

**Notes to Financial Statements
At December 31, 2012 and 2011 (Continued)**

NOTE 17 - SUBSEQUENT EVENTS:

In preparing these financial statements, management of PHFS, Inc. has evaluated events and transactions for potential recognition or disclosure through May 1, 2013, the date the financial statements were issued.

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COMPLIANCE

ROBINSON, FARMER, COX ASSOCIATES

A PROFESSIONAL LIMITED LIABILITY COMPANY

CERTIFIED PUBLIC ACCOUNTANTS

REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

**The Board of Directors
Presbyterian Homes and Family Services, Incorporated
Lynchburg, Virginia**

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of Presbyterian Homes and Family Services, Incorporated (a nonprofit organization), which comprise the statement of financial position as of December 31, 2012, and the related statements of activities, functional expenses, and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report dated May 1, 2013.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Presbyterian Homes and Family Services, Incorporated's internal control over financial reporting (internal control) to determine the auditing procedures that are appropriate in the circumstances 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 Presbyterian Homes and Family Services, Incorporated's internal control. Accordingly, we do not express an opinion on the effectiveness of the Presbyterian Homes and Family Services, Incorporated's internal control.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the Presbyterian Homes and Family Services, Incorporated's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

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

Compliance and Other Matters

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

Purpose of this Report

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

Johnson, Farmer, Co. Associates
Charlottesville, Virginia
May 1, 2013

ROBINSON, FARMER, COX ASSOCIATES

A PROFESSIONAL LIMITED LIABILITY COMPANY

CERTIFIED PUBLIC ACCOUNTANTS

INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY OMB CIRCULAR A-133

**The Board of Directors
Presbyterian Homes and Family Services, Incorporated
Lynchburg, Virginia**

Report on Compliance for Each Major Federal Program

We have audited Presbyterian Homes and Family Services, Incorporated's compliance with the types of compliance requirements described in the OMB Circular A-133 *Compliance Supplement* that could have a direct and material effect on each of Presbyterian Homes and Family Services, Incorporated's major federal programs for the year ended December 31, 2012. Presbyterian Homes and Family Services, Incorporated's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with the requirements of laws, regulations, contracts, and grants applicable to its federal programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of Presbyterian Homes and Family Services, Incorporated's major federal programs based on our audit of the types of compliance requirements referred to above. 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; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 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 occurred. An audit includes examining, on a test basis, evidence about Presbyterian Homes and Family Services, Incorporated'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 on compliance for each major federal program. However, our audit does not provide a legal determination of Presbyterian Homes and Family Services, Incorporated's compliance.

Opinion on Each Major Federal Program

In our opinion, Presbyterian Homes and Family Services, Incorporated complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended December 31, 2012.

Report on Internal Control Over Compliance

Management of Presbyterian Homes and Family Services, Incorporated is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered Presbyterian Homes and Family Services' internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with OMB Circular A-133, 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 Presbyterian Homes and Family Services, Incorporated'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 on a timely basis. *A material weakness in internal control over compliance* is a deficiency, or 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 will not be prevented, or detected and corrected, on a timely basis. *A significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

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 material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.

Robinson, Farmer, Co. Associates
Charlottesville, Virginia
May 1, 2013

PRESBYTERIAN HOMES AND FAMILY SERVICES, INCORPORATED

Schedule of Expenditures of Federal Awards
Year Ended December 31, 2012

Federal Grantor / Pass-Through Grantor / Program or Cluster Title	Federal CFDA Number	Pass-through Entity Identifying Number	Federal Expenditures
Department of Labor:			
Pass Through Payments:			
Region 2000 Workforce Investment Board:			
WIA Youth Activities	17.259	N/A	\$ <u>149,250</u>
Department of Health and Human Services:			
Pass Through Payments:			
Virginia Department of Social Services:			
Promoting Safe and Stable Families	93.556	N/A	\$ 34,981
Child Care & Development Block Grant	93.575	N/A	59,684
Community-Based Child Abuse Prevention Grants	93.590	N/A	57,077
Affordable Care Act - Maternal, Infant, and Early Childhood Home Visiting Research Programs	93.615	N/A	97,065
Temporary Assistance to Needy Families	93.558	SVC-07-070-02	<u>133,368</u>
Total department of health and human services			\$ <u>382,175</u>
Department of Education:			
Pass Through Payments:			
Virginia Department of Education:			
Twenty-First Century Community Learning Centers	84.287	N/A	\$ <u>22,900</u>
Total Expenditures of Federal Awards			\$ <u><u>554,325</u></u>

See accompanying notes to the schedule of expenditures of federal awards.

PRESBYTERIAN HOMES AND FAMILY SERVICES, INCORPORATED

Notes to Schedule of Expenditures of Federal Awards
Year Ended December 31, 2012

Note 1 - Basis of Presentation

The accompanying schedule of expenditures of federal awards (the Schedule) includes the federal grant activity of the Presbyterian Homes and Family Services, Inc. under programs of the federal government for the year ended December 31, 2012. The information in this Schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Because the Schedule presents only a selected portion of the operations of the Presbyterian Homes and Family Services, Inc., it is not intended to and does not present the financial position, changes in net assets, or cash flows of the Presbyterian Homes and Family Services, Inc.

Note 2 - Summary of Significant Accounting Policies

(1) Expenditures 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.

(2) Pass-through entity identifying numbers are presented where available.

PRESBYTERIAN HOMES AND FAMILY SERVICES, INCORPORATED

Schedule of Findings and Questioned Costs
Year Ended December 31, 2012

Section I - Summary of Auditor's Results

Financial Statements

Type of auditor's report issued:	Unqualified
Internal control over financial reporting: Material weakness(es) identified?	No
Significant deficiency(ies) identified?	None reported
Noncompliance material to financial statements noted?	No

Federal Awards

Internal control over major programs: Material weakness(es) identified?	No
Significant deficiency(ies) identified?	None reported
Type of auditor's report issued on compliance for major programs:	Unqualified
Any audit findings disclosed that are required to be reported in accordance with Circular A-133, Section .510 (a)?	No

Identification of major programs:

<u>CFDA #</u>	<u>Name of Federal Program or Cluster</u>
17.259	WIA Youth Activities
93.558	Temporary Assistance to Needy Families

Dollar threshold used to distinguish between Type A and Type B programs	\$300,000
Auditee qualified as low-risk auditee?	No

Section II - Financial Statement Findings

None

Section III - Federal Award Findings and Questioned Costs

None

PRESBYTERIAN HOMES AND FAMILY SERVICES, INCORPORATED

**Schedule of Prior Year Findings and Questioned Costs
Year Ended December 31, 2012**

There were no findings or questioned costs in the prior year.