PRESBYTERIAN CHILDREN'S HOMES AND SERVICES OF MISSOURI

AUDITED FINANCIAL STATEMENTS AND REPORT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS

Year Ended December 31, 2013

(With Comparative Totals for 2012)

PRESBYTERIAN CHILDREN'S HOMES AND SERVICES OF MISSOURI

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DECEMBER 31, 2013 AND 2012

PATTILLO, BROWN & HILL, L.L.P.
CERTIFIED PUBLIC ACCOUNTANTS ■ BUSINESS CONSULTANTS

REPORT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS

Board of Directors
Presbyterian Children's Homes and Services of Missouri
St. Louis, Missouri

We have audited the accompanying financial statements of Presbyterian Children's Homes and Services of Missouri (a nonprofit organization), which comprise the statement of financial position as of December 31, 2013, and the related statements of activities 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 of 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. Those standards require that we plan and perform the audit to obtain

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 evaluation the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluation the overall presentation of the financial statements.

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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 presented fairly in all material respects, the financial position of Presbyterian Children's Homes and Services of Missouri as of December 31, 2013, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Other Supplementary Matter

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The Schedules of Activites and Changes in Net Assets on pages 27 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 Matter

The financial statements of Presbyterian Children's Home and Services of Missouri as of December 31, 2012 were audited by predecessor auditors whose report, dated April 13, 2013, expressed an unmodified opinion on those respective statements.

Pattillo, Brown & Hill, L.L.P.

May 28, 2014

FINANCIAL STATEMENTS

PRESBYTERIAN CHILDREN'S HOMES AND SERVICES OF MISSOURI

STATEMENT OF FINANCIAL POSITION

December 31, 2013 (With Comparative Totals for 2012)

	2013	2012
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	$ 408,902	$ 462,696
Receivables		
Bequests from estates and trusts	253,711	20,165
Government and local agencies	719,662	617,794
Related party	149,391	232,593
Prepaid expenses	43,426	19,765
Total current assets	1,575,092	1,353,013
INVESTMENTS, AT FAIR VALUE	229,213	53,712
INVESTMENTS, AT COST	7,000	7,000
OTHER ASSETS	69,801	71,169
SCHOLARSHIP LOANS	27,442	48,530
PROPERTY AND EQUIPMENT	5,461,550	5,663,045
ASSETS HELD IN CHARITABLE REMAINDER TRUSTS	417,901	709,873
BENEFICIAL INTERESTS IN THIRD-PARTY TRUSTS		
Charitable remainder trusts	159,069	145,998
Perpetual trusts	2,923,432	2,929,073
Total Assets	$ 10,870,500	$ 10,981,413
LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES		
Lines of credit	1,111,290	680,655
Current portion of long-term debt	141,715	145,499
Accounts payable	363,710	246,951
Accrued expenses	656,755	739,513
Liability under unitrusts payable	-	170,640
Current portion of annuities payable	51,421	53,071
Total current liabilities	2,324,891	2,036,329
LONG TERM DEBT	3,330,445	3,472,844
LONG-TERM ANNUITIES PAYABLE	260,262	285,197
Total liabilities	5,915,598	5,794,370
NET ASSETS		
Unrestricted	222,368	183,365
Temporarily restricted	766,486	1,099,825
Permanently restricted	3,966,048	3,903,853
Total net assets	4,954,902	5,187,043
Total liabilities and net assets	$ 10,870,500	$ 10,981,413

The accompanying notes are an integral part of this statement.

PRESBYTERIAN CHILDREN'S HOMES AND SERVICES OF MISSOURI
STATEMENT OF ACTIVITIES
Year Ended December 31, 2013 (With Comparative Totals for 2012)

	2013				2012
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total	(Comparative Totals Only)
PUBLIC SUPPORT AND REVENUES					
Contributions					
Public	$ 468,818	$ -	$ -	$ 468,818	$ 735,052
Estates and trusts	581,415	-	-	581,415	7,415
Related organizations	89,126	-	-	89,126	100,764
	1,139,359	-	-	1,139,359	843,231
Fees and grants from government and local agencies	4,578,282	-	-	4,578,282	4,764,942
Program service fees	4,329,846	-	-	4,329,846	4,168,343
Interest and dividends	30,598	1,347	2,621	34,566	40,142
Gains (losses) on investments	(40)	201	13,375	13,536	(17,380)
Gain on charitable remainder trusts	-	63,753	-	63,753	73,818
Loss from perpetual trusts	-	-	(5,641)	(5,641)	(108,247)
Gain on sale of assets	30,415	-	-	30,415	-
Loss on annuities	(25,372)	-	-	(25,372)	(27,563)
Other income	279,256	-	-	279,256	252,744
Net assets released from restrictions used for operations	329,861	(398,640)	68,779	-	-
Total public support and revenues	10,692,205	(333,339)	79,134	10,438,000	9,990,030
EXPENSES					
Program services					
Residential treatment	5,495,328	-	-	5,495,328	5,623,402
Professional services	4,001,394	-	-	4,001,394	4,044,510
Total program services	9,496,722	-	-	9,496,722	9,667,912
Supporting services					
Management and general	645,988	-	16,939	662,927	658,062
Development and public relations	510,492	-	-	510,492	341,143
Total expenses	10,653,202	-	16,939	10,670,141	10,667,117
CHANGES IN NET ASSETS	39,003	(333,339)	62,195	(232,141)	(677,087)
NET ASSETS, Beginning	183,365	1,099,825	3,903,853	5,187,043	5,864,130
NET ASSETS, Ending	$ 222,368	$ 766,486	$ 3,966,048	$ 4,954,902	$ 5,187,043

The accompanying notes are an integral part of this statement.

PRESBYTERIAN CHILDREN'S HOMES AND SERVICES OF MISSOURI
STATEMENT OF FUNCTIONAL EXPENSES
Year Ended December 31, 2013 (With Comparative Totals for 2012)

	2013							2012
	Program Services				Supporting Services			
	Residential Treatment	Professional Services	Allocable Shared Services	Total	Management and General	Development and Public Relations	Total	(Comparative Totals Only)
SALARIES AND EMPLOYEE BENEFITS								
Salaries and wages	$ 3,083,110	$ 2,545,474	$ 527,534	$ 6,156,118	$ 356,147	$ 251,818	$ 6,764,083	$ 6,639,576
Employee benefits	232,955	177,146	27,346	437,447	38,435	18,710	494,592	615,169
Payroll taxes and insurance	452,854	278,749	43,040	774,643	27,060	23,462	825,165	761,702
	3,768,919	3,001,369	597,920	7,368,208	421,642	293,990	8,083,840	8,016,447
OTHER OPERATING EXPENSES								
Allocation of shared services	449,394	327,254	(776,648)	-	-	-	-	-
Bad debts (recoveries)	-	-	55,734	55,734	-	-	55,734	(16,277)
Affiliated agency services	-	-	(32,148)	(32,148)	49,401	56,899	74,152	-
Development	3,360	1,875	6,701	11,936	120	30,992	43,048	59,592
Equipment	16,480	18,135	3,891	38,506	4,220	1,661	44,387	45,302
Food	222,396	520	-	222,916	-	42	222,958	220,538
Interest	48,946	67,467	5,515	121,928	52,139	3,039	177,106	202,693
Miscellaneous	33,866	10,911	12,113	56,890	19,895	18,412	95,197	60,878
Occupancy	376,105	182,044	14,503	572,652	23,611	10,729	606,992	628,235
Postal and delivery	2,334	2,759	1,063	6,156	4,868	17,380	28,404	32,366
Printing and production	3,313	9,995	1,484	14,792	1,343	34,462	50,597	48,449
Professional fees	75,177	55,272	21,871	152,320	73,053	10,869	236,242	370,476
Client care	68,227	17,291	25	85,543	-	714	86,257	96,409
Supplies and repairs	85,077	31,374	3,856	120,307	4,617	3,446	128,370	121,294
Telephone	60,800	30,706	7,538	99,044	1,397	3,664	104,105	112,077
Training, meetings and dues	11,361	3,103	36,751	51,215	123	3,838	55,176	52,551
Travel and transportation	135,992	190,562	23,410	349,964	747	18,166	368,877	396,666
Total expenses before depreciation	5,361,747	3,950,637	(16,421)	9,295,963	657,176	508,303	10,461,442	10,447,696
DEPRECIATION	133,581	50,757	16,421	200,759	5,751	2,189	208,699	219,421
TOTAL 2013	$ 5,495,328	$ 4,001,394	$ -	$ 9,496,722	$ 662,927	$ 510,492	$ 10,670,141	
PERCENTAGE - 2013	51.5%	37.5%		89.0%	6.2%	4.8%	100.0%	
TOTAL 2012	$ 5,623,402	$ 4,044,510		$ 9,667,912	$ 658,062	$ 341,143		$ 10,667,117
PERCENTAGE 2012	52.7%	37.9%		90.6%	6.2%	3.2%		100.0%

The accompanying notes are an integral part of this statement.

PRESBYTERIAN CHILDREN'S HOMES AND SERVICES OF MISSOURI
STATEMENT OF CASH FLOWS
Year Ended December 31, 2013 (With Comparative Totals for 2012)

	Years Ended December 31,	
	2013	2012
OPERATING ACTIVITIES		
Change in net assets	$ (232,141)	$ (677,087)
Adjustments to reconcile changes in net assets to net cash used by operating activities		
Bad debts (recoveries)	55,734	(16,277)
Depreciation	208,699	219,421
Losses (gains) on investments	(13,536)	17,380
Gain from charitable remainder trusts	(63,753)	(73,818)
Loss from perpetual trusts	5,641	108,247
Losses on annuities	25,372	27,563
Temporarily restricted contributions for property	-	(200,000)
Changes in:		
Receivables		
Bequests from estates and trusts	(233,546)	18,008
Government and local agencies	(157,602)	(188,853)
Related party	83,202	163,405
Prepaid expenses	(23,661)	(606)
Other assets	1,368	1,368
Scholarship loans	21,088	10,035
Assets held in charitable remainder trusts	291,972	(33,651)
Beneficial interests in third-party trusts	50,682	61,218
Accounts payable	116,759	(77,864)
Accrued expenses	(82,758)	43,496
Liability under unitrusts agreements	(170,640)	(27,567)
Annuities payable	(51,957)	(55,047)
Net cash used by operating activities	(169,077)	(680,629)
INVESTING ACTIVITIES		
Purchase of property and equipment	(13,835)	(31,506)
Proceeds from sale of property and equipment	6,631	-
Proceeds from sale of investments	-	326,072
Purchase of investments	(161,965)	-
Net cash provided by investing activities	(169,169)	294,566
FINANCING ACTIVITIES		
Proceeds (borrowings) on lines of credit	430,635	481,637
Temporarily restricted contributions for property	-	200,000
Repayment of long term debt	(146,183)	(69,056)
Net cash provided (used) by financing activities	284,452	612,581
NET INC. (DECREASE) IN CASH AND CASH EQUIVALENTS	(53,794)	226,518
CASH AND CASH EQUIVALENTS, Beginning	462,696	236,178
CASH AND CASH EQUIVALENTS, Ending	$ 408,902	$ 462,696

The accompanying notes are an integral part of this statement.

NOTE 1 — SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

This summary of significant accounting policies is presented to assist in understanding the Organization's financial statements. These accounting policies conform to accounting principles generally accepted in the United States of America.

History and Business Activity

Presbyterian Children's Homes and Services of Missouri (PCHAS-MO) provides residential treatment for adolescents and professional services (community based/case management programs) for children of all ages from troubled family backgrounds and other related family services.

Historically, Presbyterian Children's Services, Inc. (PCS) was controlled by the Board of Directors of PCS. Children's Foundation of Mid-America, Inc. was created to provide funding for all PCS programs and managed all of the investments, endowments and property of the programs operated by PCS. Children's Foundation of Mid-America, Inc. merged into Presbyterian Children's Services, Inc. in 2009. At the time of the merger, Presbyterian Children's Services, Inc. (the surviving entity) changed names to Children's Foundation of Mid-America, Inc. (CFMA). CFMA retained the right to use Presbyterian Children's Services, Inc. as a fictitious name, registered with the Missouri Secretary of State. In 2013, Children's Foundation of Mid-America, Inc. changed its name to Presbyterian Children's Homes and Services of Missouri.

In 2009, the Organization also created two new limited liability companies, Presbyterian Children's Services, LLC and Eagle Summit, LLC to further reserve the right to use those names for its own programs. These LLCs are presently inactive and have no assets, liabilities or net assets as of December 31, 2013 and 2012.

The Organization's program services are provided in the following locations.

Residential Treatment	Professional Services Community Based/Case Management
Farmington	Columbia
Springfield	Springfield
Maplewood	Joplin
Whiteside	St. Louis
Columbia	

Comparative Totals

The financial statements include certain prior year summarized comparative information in total but not by net asset class. Such information does not include sufficient detail to constitute a presentation in conformity with accounting principles generally accepted in the United States of America. Accordingly, such information should be read in conjunction with the financial statements for the year ended December 31, 2012, from which the summarized information was derived. Certain reclassifications have been made to the information for the year ended December 31, 2012 to conform to the year ended December 31, 2013 presentation.

NOTE 1 — SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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 and disclosures. Accordingly, actual results may differ from those estimates.

Financial Statement Presentation

PCHAS-MO resources are classified for accounting and reporting purposes into three asset categories according to externally (donor) imposed restrictions. A description of the three net asset categories is as follows:

> **Unrestricted Net Assets** - Represent those whose use is not restricted by donors. All contributions are considered to be available for unrestricted use and available for operations unless specifically restricted by the donor.
>
> **Temporarily Restricted Net Assets** - Represent those net assets whose use has been limited by donor-imposed stipulations that either specify expenditures, expire by passage of time, or can be fulfilled and removed by actions of the Board pursuant to those stipulations. Net assets in this classification are primarily related to time and program restrictions.
>
> **Permanently Restricted Net Assets** - Represent those net assets that must be maintained in perpetuity, the income from which can be spent for operations except for the Park Fund and beneficial interest in third-party trusts. The income from these funds is subject to restrictions.

Cash and Cash Equivalents

Cash and cash equivalents include highly liquid investments with original maturities of three months or less when purchased to be cash equivalents and money market funds held by brokerage firms. Cash equivalents are stated at cost, which approximates market value.

PCHAS-MO from time to time during the year may have bank balances in excess of its insured limits. Management has deemed this as normal business risk.

PCHAS-MO has money market mutual funds, which are not federally insured, but are subject to Securities Investor Protection Coverage (SIPC) as of December 31, 2013 and December 31, 2012.

Receivables

Receivables are stated at the amount management expects to collect from outstanding balances. Receivables are deemed to be past due once they are more than 60 days old. Management provides for probable uncollectible amounts through a charge to earnings and a credit to a valuation allowance based on its assessment of the current status of individual accounts.

NOTE 1 — SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Receivables (Continued)

Balances that are still outstanding after management has used reasonable collection efforts are written off through a charge to the valuation allowance and a credit to trade accounts receivable.

Changes in the allowance for doubtful accounts are as follows:

	As of and for the Years Ended December 31,	
	2013	2012
Balance - Beginning	$ 33,000	$ 223,000
Provision for Doubtful Accounts	55,734	(16,277)
Accounts Written Off	(35,734)	(173,723)
Balance - Ending	$ 53,000	$ 33,000

Investments

Investments in corporate stocks, bonds, mutual funds and U.S. Government obligations are stated at fair value based on quoted market prices. The Organization also has an investment in a related party that is recorded at cost. Gains and losses are computed using the specific identification method.

Scholarship Loans

PCHAS-MO provides loans to eligible residents and former resident students based on restricted net assets. Loans to residents and former residents are non-interest bearing while loans to employees and their families are simple interest loans bearing interest at 5%. The scholarship loans are funded through donor restricted funds. The Agency has historically extended the loans to former and current employees and their families, a practice that was discontinued in 2013.

Student loans are stated at cost when awarded. The student is obligated to start repaying the loans upon graduation. Generally, repayment of loans is scheduled over five years. No interest is charged or accrued on loans while a student is actively enrolled in school.

An allowance for uncollectible accounts in the amount of $11,490 was recorded as of December 31, 2013. No allowance was deemed necessary for 2012.

Property and Equipment

Purchases of property and equipment with values of $2,000 or more are capitalized, while all other purchases are recorded as expense in the year purchased. Property and equipment is recorded at cost, if purchased, or at estimated fair market value on the date of receipt, if donated.

Depreciation of property and equipment is provided on the straight-line method over the following estimated useful lives:

	Years
Buildings and Building Improvements	40
Furniture, Fixtures and Equipment	5 - 10
Vehicles	3

NOTE 1 — SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Contributions

Unconditional promises-to-give cash and other assets are reported at fair value at the date the promise is received. All contributions are considered to be available for unrestricted use unless specifically restricted by the donor. Contributions that are temporarily restricted as to use by the donor are reported as unrestricted when the restriction is fulfilled in the same time period in which the contribution is received.

Contributions that have been pledged but not received as of the end of an accounting period are reported at the net present value of the future cash flows of such pledges. Contributions that are conditional upon some event are not reported until such time as the condition has been met. Certain grants may qualify as contributions and, accordingly, they are recognized as support when made.

Program Service Fees and Grants from Governmental and Local Agencies

Fees and grants from governmental and local agencies are generally recognized as revenue in the period that specific services are performed.

Program service fees are recognized when the services are provided and are reported at the net realizable amounts from private payers, third-party payers, and others.

Legacies and Bequests, and Interests in Third-Party Trusts

PCHAS-MO records contributions from donors for legacies and bequests as it is notified and the amounts are determinable. Additionally, the Organization records contributions from donors for charitable gift annuities.

PCHAS-MO is beneficiary of trusts in which the donors have established perpetual trusts administered by third-party trustees. PCHAS-MO has the irrevocable right to receive the income earned on the trust assets in perpetuity. The amount recorded in the statement of financial position represents the estimated fair value of the contributions based on its percentage interest of the fair value of the trust assets.

PCHAS-MO is a beneficiary of charitable remainder trusts. PCHAS-MO has the irrevocable right to receive the distributions for a specified period of time and/or principal of the trust at the death of the donors or beneficiaries. The amount recorded in the statement of financial position represents the estimated fair value of the contribution measured as the present value of the principal based upon the actuarial lives of the donors.

Donated Materials

PCHAS-MO records the value of donated materials as contributions when there is an objective basis available to measure their fair value.

Advertising

Advertising costs are charged to operations when incurred and were $6,623 and $10,506 for the years ended December 31, 2013 and 2012, respectively.

NOTE 1 — SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Fair Value Measurements

Fair value is defined 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 on the measurement date. PCHAS-MO determines the fair values of its financial instruments based on the fair value hierarchy which requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. The standard describes three levels of inputs that may be used to measure fair value.

Financial instruments are considered Level 1 when valuation can be based on quoted prices in active markets for identical assets or liabilities. Level 2 financial instruments are valued using quoted prices for similar assets or liabilities; quoted prices in markets that are not active; or other inputs that are observable or can be corroborated by observable market data of substantially the full term of the assets or liabilities. Financial instruments are considered Level 3 when their values are determined using pricing models, discounted cash flow methodologies or similar techniques and at least one significant model assumption or input is unobservable and when determination of the fair value requires significant management judgment or estimation.

Declines in the fair value of individual investments below their cost that are other than temporary result in write-downs of the individual securities to their fair value. The related write-downs are included in earnings as realized losses. In estimating other-than-temporary impairment losses, management considers (1) the length of time and the extent to which the fair value has been less than cost, (2) the financial condition and near-term prospects of the issuer, and (3) the intent and ability of the St. Louis Region to retain its investment in the issuer for a period of time sufficient to allow for any anticipated recovery in fair value.

Income Taxes

PCHAS-MO is exempt from federal income tax under Section 501(c)3 of the Internal Revenue Code, though it would be subject to tax on income unrelated to its exempt purpose (unless that income is otherwise excluded by the IRC). The organization has concluded that no tax benefits or liabilities are required to be recognized in accordance with generally accepted accounting principles.

PCHAS-MO has adopted FASB ASC 740-10, Accounting for Uncertainty in Income Tax. That standard prescribes a minimum recognition threshold and measurement methodology that a tax position taken or expected to be taken in a tax return is required to meet before being recognized in financial statements. It also provides guidance for derecognition, classification, interest and penalties, accounting and interim periods, disclosure, and transition. The cumulative effect of this change in accounting principle was immaterial. The last three years remain open to audit for both federal and state purposes. In addition, PCHAS-MO qualifies for the charitable contribution deduction under Section 170 and has been classified as an organization other than a private foundation under Section 509(a)3.

Functional Expenses

PCHAS-MO allocates expenses on a functional basis among its various program and supporting services. Expenses that can be directly associated with a specific program are allocated directly according to their functional expense classification. Other expenses that are common to several functions are allocated by various statistical bases.

NOTE 1 — SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Affiliation

Effective January 15, 2013, PCHAS-MO entered into an affiliation agreement with Presbyterian Children's Homes and Services (PCHAS-TX), a Texas nonprofit corporation. Under this affiliation, PCHAS-MO and PCHAS-TX remain separate corporations and operate programs independently. On January 15, 2013, PCHAS-MO and PCHAS-TX entered into a shared services agreement through which specified areas of knowledge and expertise will be mutually shared. PCHAS-TX provides supervision and oversight to several PCHAS-MO departments including the human resources, administrative, finance, development and quality assurance staff. PCHAS-MO provides information technology support system and some administrative support services to PCHAS-TX. As of December 31, 2013, PCHAS-TX has a net receivable of $74,152 from PCHAS-MO. PCHAS-TX earned new revenue in the amount of $74,152 for labor and administrative, developmental, and financial support services provided to PCHAS-MO as well as the reimbursement of travel expenses and affiliated material purchases.

NOTE 2 — CASH AND CASH EQUIVALENTS

Cash and cash equivalents consist of the following:

	December 31,	
	2013	2012
Checking	$ 361,695	$ 289,470
Money market mutual funds	47,207	173,226
	$ 408,902	$ 462,696

NOTE 3 — INVESTMENTS

Investments consist of the following:

	December 31,	
Investments, at fair value	2013	2012
Corporate stocks	$ 198,703	$ 19,634
Bond funds	21,206	21,005
Equity funds	8,904	8,815
U.S. government obligations	400	4,258
	$ 229,213	$ 53,712
Investments, at cost		
Investment in Missouri Alliance for Children and Families, L.L.C.	$ 7,000	$ 7,000

NOTE 4 — PROPERTY AND EQUIPMENT

Property and equipment consists of the following:

	December 31,	
	2013	2012
Land	$ 1,345,635	$ 1,345,635
Buildings and building improvements	6,684,857	6,671,021
Furniture, fixtures and equipment	906,788	906,788
Vehicles	188,940	303,606
	9,126,220	9,227,050
Less accumulated depreciation	(3,664,670)	(3,564,005)
	$ 5,461,550	$ 5,663,045

PCHAS-MO leases a vehicle under a capital lease. The asset and liability under the capital lease is recorded at the lower of the present value of minimum lease payments or the fair value of the asset. The asset is depreciated over the lesser of the related lease term or the estimated useful life. Depreciation of the asset under the capital lease is included in depreciation expense for the year ended December 31, 2013. The vehicle held under the capital lease was fully depreciated and the capital lease was fully paid as of December 31, 2013

PCHAS-MO reviews its long-lived assets for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. No impairments were indicated in 2013 or 2012.

NOTE 5 — ASSETS HELD IN CHARITABLE REMAINDER TRUSTS

Donors have established charitable remainder trusts, naming the Organization as the trustee. Charitable remainder trusts provide for the payment of distributions to designated beneficiaries over the trusts' terms. At the end of the trusts' terms, the remaining assets are to be available for the Organization's use, subject to donor-imposed restrictions. Assets held in charitable remainder trusts at December 31, 2013 and 2012 totaled $417,901 and $709,873, respectively, and are reported at fair value in the Organization's statement of financial position. These trust assets, which are invested and administered by bank trustees, are invested generally in equity securities (25%), fixed income securities (25%), and cash equivalents (50%).

Income from charitable remainder trusts including gains is reflected in the Organization's statement of activities. On an annual basis, the Organization reviews the need to re-evaluate the liability to make distributions to the designated beneficiaries based on actuarial assumptions. There were no changes in actuarial assumptions resulting in revaluations during the years ended December 31, 2013 and 2012. The liability under the unitrust ended during 2013 due to the death of the annuitant. The present value of the estimated future payments of $170,640 at December 31, 2012 was calculated using a discount rate of 1.6% and applicable mortality tables.

Donors have established trusts with local banks naming the Organization as the beneficiary of charitable remainder trusts. At the time of the donors' deaths, the trusts are to terminate and remaining trust assets are to be distributed to the Organization and other entities, based upon formulas set forth in the trusts.

NOTE 6 — BENEFICIAL INTERESTS IN THIRD-PARTY TRUSTS

Charitable Remainder Trusts

Based upon donor life expectancy, the present value of future benefits expected to be received by the Organization is estimated to be $159,069 and $145,998 at December 31, 2013 and 2012, respectively. These trust assets, which are invested and administered by bank trustees, are invested generally in equity securities (50%), fixed income securities (45%), and cash equivalents (5%).

Changes in the fair value of charitable reminder trusts are reflected as changes in temporarily restricted net assets in the Organization's statement of activities.

Perpetual Trusts

The Organization is the beneficiary of various trusts created by donors, the assets of which are not in the possession of the Organization. The Organization has legally enforceable rights and claims to such assets, including the sole right to income. These trust assets, which are invested and administered by bank trustees, are invested generally in equity securities (45%), fixed income securities (50%), and cash equivalents (5%).

The change in fair value related to the beneficial interests is reported as changes in permanently restricted net assets based on explicit donor stipulations. The fair value at December 31, 2013 and 2012 of those beneficial interest was $2,923,432 and $2,929,073, respectively.

NOTE 7 — NOTES PAYABLE

Notes payable consists of the following:

	December 31,	
	2013	2012
$200,000 line of credit with a bank; interest payable monthly at prime rate plus 0.50%, subject to 4.75% floor; principal and interest due April 9, 2015, secured by property	$ 195,800	$ 198,916
$250,000 line of credit with a bank; interest payable monthly at prime rate plus 0.50%, subject to 4.00% floor; principal and interest due Sept. 22, 2014, secured by property	248,300	129,674
$650,000 line of credit with an affiliated organization; interest payable monthly at prime rate plus 0.50% ; principal and interest due December 31, 2014, secured by property. The PCHAS-TX Board of Trustees voted to increase this line of credit to $850,000 in March 2014.	667,190	352,065
	$ 1,111,290	$ 680,655

The prime rate at December 31, 2013 and 2012 was 3.25%

NOTE 8 — LONG-TERM DEBT

Long-term debt consists of the following:

	December 31, 2013	December 31, 2012
$1,162,982 term loan with bank; payable in monthly installments of $7,598 including interest payable at 4.85%; final payment due November 21, 2027 - collateralized by real property	$ 921,277	$ 966,691
$750,000 term loan with bank; payable in monthly installments of $4,544 including interest at lender's 1 Yr. CD rate plus 3.5%; final payment due October 9, 2029 - collateralized by real property	624,838	651,652
$2,000,000 term loan with bank; payable in monthly installments of $12,618 including interest payable at 4.5%; final payment due in January 2018 - collateralized by real property	1,926,045	2,000,000
	3,472,160	3,618,343
Less current portion of long-term debt	141,715	145,499
	$ 3,330,445	$ 3,472,844

Future maturities of long-term debt are as follows:

Year Ending December 31,	
2014 - current portion	$ 141,715
2015	148,434
2016	155,553
2017	162,971
2018	1,734,434
Thereafter	1,129,053
	$ 3,472,160

NOTE 9 — ANNUITIES PAYABLE

PCHAS-MO receives donations from benefactors in exchange for annuities that provide income to a named beneficiary (or beneficiaries) until their death. The difference between the amount of the donation and the present value of expected future payments to the beneficiary is recognized as revenue in the year of the donation. The total expected annual payments are $51,421 and $53,071 at December 31, 2013 and 2012, respectively. In calculating the present value of the annuities, PCHAS-MO used a discount rate based on the IRS applicable federal rate for the month the contributions were received, which were applied to the current expected payoff based on the annuitant's remaining expected life.

NOTE 9 — ANNUITIES PAYABLE (Continued)

Future maturities of annuities payable are as follows:

Year Ending December 31,		
2014 - current portion	$	51,421
2015		48,254
2016		45,124
2017		39,096
2018		23,100
Thereafter		104,688
	$	311,683

NOTE 10 — TEMPORARILY RESTRICTED NET ASSETS

Temporarily restricted net assets are available for the following purposes:

	December 31,			
		2013		2012
Program and Purpose Restrictions				
Scholarships	$	189,515	$	140,436
Facilities		-		201,100
		189,515		341,536
Time restrictions		576,971		758,289
	$	766,486	$	1,099,825

Temporarily restricted net assets are released from donor restriction by incurring expenses, satisfying the restricted purposes or by occurrence of other events specified by donors as follows:

	December 31,			
		2013		2012
Program and Purpose Restrictions	$	201,191	$	38,681
Time restrictions		197,449		2,955
	$	398,640	$	41,636

NOTE 11 — PERMANENTLY RESTRICTED NET ASSETS

Permanently restricted net assets consist of the following:

	December 31,	
	2013	2012
Endowment funds managed by PCHAS-MO	$ 1,042,616	$ 1,045,632
Beneficial interests in third-party trusts-Managed by Trust companies	2,923,432	2,858,221
	$ 3,966,048	$ 3,903,853

There were no net assets released from donor restrictions by satisfying the restricted purpose for the years ended December 31, 2013 and 2012, respectively. In 2013, $68,779 was transferred from temporarily restricted assets to permanently restricted assets to reflect a restriction on income.

NOTE 12 — ENDOWMENT

Endowment

The Organization's endowment consists of various funds established for a variety of purposes. Its endowment includes donor restricted endowment funds. Net assets associated with endowment funds are classified and reported based on the existence or absence of donor restrictions.

Uniform Prudent Management of Institutional Funds Act

The Uniform Law Commission (ULC) approved the Uniform Prudent Management of Institutional Funds Act (UPMIFA) that serves as a guideline for states to use in enacting legislation related to the UPMIFA. In response to the ULC's act the Financial Accounting Standards Board (FASB) issued Endowments of Not-for-Profit Organizations, which requires substantial additional disclosures relating to endowments. The State of Missouri passed legislation enacting a state version of the UPMIFA.

Interpretation of Relevant Law

The Board of Directors of the Organization has interpreted State Prudent Management of Institutional Funds Act (SPMIFA) as requiring the preservation of the fair value of the original gift as of the 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 by 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.

NOTE 12 — ENDOWMENT (Continued)

Endowment (Continued)

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

Return Objectives and Risk Parameters

PCHAS-MO 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 of donor restricted funds 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 produce results that exceed the price and yield results of the appropriate index while assuring a moderate level of investment risk. Actual returns in any given year may vary from this amount.

Strategies Employed for Achieving Objectives

To satisfy its long-term rate-of-return objectives, PCHAS-MO 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). PCHAS-MO targets a diversified asset allocation that places a greater emphasis on equity-based investments to achieve its long-term return objectives with prudent risk constraints.

Spending Policy and How the Investment Objectives Relate to Spending Policy

The Organization has a policy of distributing capital gains to the extent the then-current market value of the fund principal exceeds the historical dollar value of the gift less any distributions of principal allowed under the terms of the gift, unless otherwise specified by the donor. In establishing this policy, the Organization considered the long-term expected return on its endowment. Accordingly, over the long-term, PCHAS-MO expects the current spending policy to allow its endowment to grow annually. This is consistent with the Organization's objective to maintain the purchasing power of the endowment assets held in perpetuity or for a specified term as well as to provide additional real growth through new contributions and investment return.

NOTE 12 — ENDOWMENT (Continued)

Endowment (Continued)

Endowment net asset composition by type of fund consists of the following:

	December 31,				
	2013				2012
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total	Total
Donor Restricted					
Endowment Funds	$ -	$ -	$ 1,042,616	$ 1,042,616	$ 1,092,546
Beneficial interest in third party trusts	-	-	2,923,432	2,923,432	2,858,221
Total - 2013	$ -	$ -	$ 3,966,048	$ 3,966,048	
Total - 2012	$ 43,943	$ 2,971	$ 3,903,853		$ 3,950,767

Donor restricted endowment funds are managed by PCHAS-MO. Donor restricted beneficial interest in third-party trusts are managed by trust companies

Changes in endowment net assets are as follows:

	December 31,				
	2013				2012
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total	Total
Endowment net assets					
Beginning balance	$ 43,943	$ 2,971	$ 3,903,853	$ 3,950,767	$ 3,971,803
Interest and dividends		-	2,621	2,621	4,856
Investment gains		-	13,375	13,375	13,998
Loss on perpetual trusts	-	-	(5,641)	(5,641)	(108,247)
Contributions	-	-	-	-	-
Appropriated for expenditure/transfer	(43,943)	(2,971)	51,840	4,926	68,357
Ending balance	$ -	$ -	$ 3,966,048	$ 3,966,048	$ 3,950,767

NOTE 13 — OPERATING LEASES

The Organization leases office space and equipment under operating leases which expire through 2017. The rent payments may be adjusted each calendar year for a pro rata share of the increase in taxes and operating expenses over the base year expenses.

NOTE 13 — OPERATING LEASES (Continued)

Minimum payments on these operating leases are as follows:

Year Ending December 31		
2014	$	91,041
2015		33,158
2016		8,849
2017		4,500
	$	137,548

Rent expense was $158,282 and $119,653 for the years ended December 31, 2013 and 2012, respectively, and is included in operating expense.

NOTE 14 — DEFERRED COMPENSATION 403(b) PLAN

Prior to 2013 the Organization offered a 403(b) deferred compensation plan for all qualified employees upon their first day of employment. After one year of service, with at least 1,000 hours of service, the Organization matched the employee deferred amount, up to 5% of compensation. The Organization terminated the 403(b) deferred compensation plan effective December 31, 2012. The Organization did not contribute during 2013. The Organization contributed $59,720 to the plan for the year ended December 31, 2012.

NOTE 15 — FEES AND GRANTS FROM GOVERNMENT AND LOCAL AGENCIES

Fees and grant revenues from government and local agencies consist of the following:

	Years Ended December 31,	
	2013	2012
Unrestricted		
Residential fees		
State of Missouri	$ 2,705,261	$ 2,902,229
Missouri Alliance for Children and Families, L.L.C.	1,378,418	1,626,137
Other residential fees	331,672	-
	4,415,351	4,528,366
U.S. Department of Agriculture	68,959	66,586
Farmington School District R-7	68,303	107,911
Miscellaneous - amounts < $50,000	25,669	62,079
	$ 4,578,282	$ 4,764,942

NOTE 16 — PROGRAM SERVICE FEES

Program service fees consist of the following:

	Years Ended December 31,	
	2013	2012
Unrestricted		
Missouri Alliance for Children and Families, L.L.C.	$ 2,373,568	$ 2,295,456
St. Louis County Children's Services Fund (Note 17)-		
Family Solutions for Kids	761,334	876,694
Therapeutic Mentoring and Family Support	1,000,009	869,942
Other - various	194,935	126,251
	$ 4,329,846	$ 4,168,343

NOTE 17 — ST. LOUIS COUNTY CHILDREN'S SERVICE FUND

PCHAS-MO receives funding from the St. Louis County Children's Service Fund and recognized program service fees of $1,761,343 and $1,746,636 for the years ended December 31, 2013 and 2012, respectively.

PCHAS-MO incurred the following costs for this contract:

	Years Ended December 31,	
Costs for Program	2013	2012
Family Solutions for Kids	$ 965,697	$ 872,332
Therapeutic Mentoring and Family Support	1,043,033	991,914
	$ 2,008,730	$ 1,864,246

During 2013 and 2012, The St. Louis County Children's Service Fund agreement with PCHAS-MO provided for a cost reimbursement based upon an agreed number of units to be served. The contract was amended for additional units of service during the year. The following information reflects the units served and the cost per unit of service.

	Years Ended December 31,	
	2013	2012
Units Served		
Family Solutions for Kids	11,515	13,077
Therapeutic Mentoring and Family Support	45,700	40,658
	57,215	53,735

	Years Ended December 31,	
	2013	2012
Cost per Unit of Service		
Family Solutions for Kids	$ 83.86	$ 66.71
Therapeutic Mentoring and Family Support	22.82	24.40

PCHAS-MO shares services and expenses with another not-for-profit organization on the Family Solutions for Kids program, funded by the St. Louis County Children's Service Fund.

NOTE 18 — RELATED PARTY TRANSACTIONS

The Organization is a member of Missouri Alliance for Children and Families, L.L.C. (the Alliance) in which it has a 12.5% equity interest. The Alliance contracts with most of its members to provide a variety of services, as well as with non-member agencies and organizations across the state. The Alliance currently provides services to the Missouri Children's Division under two contracts. Both contracts are reviewed with the state and revised and renewed periodically. Under the initial contract, the Alliance provides case management services to children in the care and custody of the state. The Organization contracts with the Alliance to provide certain services to these clients, including both residential and community-based care.

Under the second contract, the Alliance is the provider of record with the state, but acts primarily to provide administrative services to the Organization and four other member agencies. These five agencies provide foster care case management services to clients, essentially as subcontractors with the Alliance. The new contract provides annually for bonuses and/or penalties. The Organization also provides other services for its clients and those of other private case management contractors across the state, as determined by the agency assigned to the case. These services include both residential and community-based services.

The Alliance owed the Organization $137,038 and $222,319 at December 31, 2013 and 2012, respectively. The Organization's negative equity in the Alliance is approximately $183,000 and $250,000 at December 31, 2013 and 2012, respectively.

The Organization leases office space to the Alliance on a monthly basis. Total rent income received from the related party was $19,891 and $16,831 for the years ended December 31, 2013 and 2012, respectively.

Distributions from the Alliance, included in other revenues, were $163,250 and $88,968 for the years ended December 31, 2013 and 2012, respectively.

NOTE 19 — YOUTH OPPORTUNITIES PROGRAM

During 2013, the Organization was awarded State of Missouri Youth Opportunities Program credits of $190,989. The award is for a one year period ending June 30, 2014. Credits granted were to be distributed at a 50% rate in exchange for $381,978 in contributions. Total donations and related program expenditures for the project were $137,879 for the year ended December 31, 2013.

In 2012, the Organization was awarded State of Missouri Youth Opportunities Program credits of $191,280. The award was for a one year period ending December 31, 2012. Credits granted were to be distributed at a 50% rate in exchange for $382,560 in contributions. Total donations and related program expenditures for the project were $259,741 for the year ended December 31, 2012.

NOTE 20 — CONTINGENCIES

Certain revenue received by PCHAS-MO is subject to compliance audits by appropriate governmental authorities. The findings of these audits could result in additional liabilities to PCHAS-MO. However, management believes that PCHAS-MO has complied with the provisions of each contract and the effect of such findings, if any, would not have a material impact on the financial statements.

NOTE 20 — CONTINGENCIES (Continued)

The Organization is a party to certain claims arising out of the normal conduct of its business. While the ultimate resolution of these matters cannot be predicted with certainty, management does not expect that these matters will have a material adverse effect on the financial position of the Organization.

NOTE 21 — FAIR VALUE MEASUREMENTS

Fair value is defined 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 on the measurement date. For additional information on how the Organization measures fair value, see Note 1.

The following are the major categories of assets and liabilities measured at fair value on a recurring basis:

	Level 1 Quoted Prices in Active Markets for Identical Assets	Level 2 Significant Other Observable Inputs	Level 3 Significant Unobservable Inputs	Fair Value	Fair Value
	December 31, 2013				December 31, 2012
Assets					
Investments	$ 228,813	$ 400	$ 7,000	$ 236,213	$ 53,712
Held in Charitable remainder trusts	417,901	-	-	417,901	709,873
Beneficial interests in third-party trusts					
Charitable remainder trusts	115,572	7,673	35,824	159,069	145,998
Perpetual trusts	1,550,180	9,503	1,363,749	2,923,432	2,929,073
2013 Totals	$ 2,312,466	$ 17,576	$ 1,406,573	$ 3,736,615	
2012 Totals	$ 2,186,330	$ 257,247	$ 1,395,079		$ 3,838,656
***Liability* - Annuities Payable**					
2013	$ -	$ -	$ -	$ -	
2012	$ -	$ -	$ 170,640		$ 170,640

NOTE 21 — FAIR VALUE MEASUREMENTS (Continued)

Investment securities measured at fair value on a recurring basis using significant unobservable inputs (Level 3):

Assets	
Balance on January 1, 2012	$ 1,514,658
Total gains included in earnings	(159,050)
Purchases	39,471
Balance on December 31, 2012	1,395,079
Total gains included in earnings	2,233
Purchases	9,261
Balance on December 31, 2013	$ 1,406,573
Liability	
Balance on January 1, 2012	$ 198,207
Total loss included in earnings	(27,567)
Balance on December 31, 2012	170,640
Total liquidation of liability	(170,640)
Balance on December 31, 2013	$ -

Gains (losses) included in earnings are reported as follows:

	Years Ended December 31,	
	2013	2012
Investments		
Unrealized losses	$ (40)	$ (91,773)
Realized gains	13,576	74,393
	13,536	(17,380)
Gain (loss) from charitable remainder trusts	63,753	73,818
Loss from perpetual trusts	(5,641)	(108,247)
	$ 71,648	$ (51,809)

NOTE 22 — SUBSEQUENT EVENTS

In January 2014, the Maplewood Transitional Living program was discontinued. The property, consisting of two duplexes, was sold. The net sale proceeds totaled approximately $137,000. In addition, in January 2014, the Board of Trustees voted to close the Eagle Summit residential treatment program located in Whiteside, Missouri. The program ended in April 2014. Management does not expect these actions to have a material effect on its financial position or operations.

Management of PCHAS-MO has evaluated subsequent events through May 28, 2014 the issuance date of this report. Consequently, there are no particular events that have any effect related to the financial position of the organization for the year ending December 31, 2013 and do not require additional disclosure.

SUPPLEMENTAL SCHEDULE

PRESBYTERIAN CHILDREN'S HOMES AND SERVICES OF MISSOURI
SCHEDULES OF ACTIVITIES AND CHANGES IN NET ASSETS
Years Ended December 2013 and 2012 (With Comparative Consolidated Totals for 2009 through 2011)

	Year Ended December 31,				
			Comparative Consolidated Totals		
	2013	2012	2011	2010	2009
PUBLIC SUPPORT AND REVENUES					
Contributions					
Public	$ 1,043,698	$ 735,052	$ 448,863	$ 589,959	$ 602,781
Estates and trusts	6,535	7,415	357,412	331,631	272,366
Related organizations	89,126	100,764	136,123	169,422	184,849
Noncash- property and equipment	-	-	-	38,250	-
	1,139,359	843,231	942,398	1,129,262	1,059,996
Fees and grants from government and local agencies	4,578,282	4,764,942	4,473,400	4,026,382	4,413,661
Program service fees	4,329,846	4,168,343	3,914,320	3,189,587	3,302,066
Interest and dividends	34,566	40,142	57,307	93,795	151,149
Gains (losses) on investments	13,536	(17,380)	28,343	72,585	376,104
Gain on sale of assets	30,415	-	-	5,938	-
Gain (loss) from charitable remainder trusts	63,753	73,818	(10,792)	41,589	90,450
Gain (loss) from perpetual trusts	(5,641)	(108,247)	(54,065)	53,036	180,128
Gains (losses) on annuities	(25,372)	(27,563)	(44,299)	(14,746)	(13,423)
Other revenues	279,256	252,744	262,845	147,567	97,270
Total public support and revenues	10,438,000	9,990,030	9,569,457	8,744,995	9,657,401
EXPENSES					
Residential treatment and program services	9,174,035	9,305,523	9,116,248	8,691,454	8,200,530
Development and public relations	505,264	334,249	377,512	417,041	516,241
Management and general	605,037	603,904	714,067	727,554	677,017
Depreciation	208,699	219,421	213,691	200,238	213,795
Investment advisory fees	-	1,327	11,219	11,219	11,219
Interest	177,106	202,693	202,560	113,731	70,495
Total expenses	10,670,141	10,667,117	10,635,297	10,161,237	9,689,297
CHANGES IN NET ASSETS	(232,141)	(677,087)	(1,065,840)	(1,416,242)	(31,896)
NET ASSETS, Beginning	5,187,043	5,864,130	6,929,970	8,346,212	8,378,108
NET ASSETS, Ending	$ 4,954,902	$ 5,187,043	$ 5,864,130	$ 6,929,970	$ 8,346,212

PATTILLO, BROWN & HILL, L.L.P.
CERTIFIED PUBLIC ACCOUNTANTS ■ BUSINESS CONSULTANTS

To the Board of Directors
Presbyterian Children's Homes
and Services of Missouri

We have audited the financial statements of Presbyterian Children's Homes and Services of Missouri for the year ended December 31, 2013, and have issued our report thereon dated May 28, 2014. Professional standards require that we provide you with information about our responsibilities under generally accepted auditing standards, as well as certain information related to the planned scope and timing of our audit. We have communicated such information in our letter to you dated February 20, 2014. Professional standards also require that we communicate to you the following information related to our audit.

Significant Audit Findings

Qualitative Aspects of Accounting Practices

Management is responsible for the selection and use of appropriate accounting policies. The significant accounting policies used by Presbyterian Children's Homes and Services of Missouri are described in Note 2 to the financial statements. No new accounting policies were adopted and the application of existing policies was not changed during 2013. We noted no transactions entered into by the Company during the year for which there is a lack of authoritative guidance or consensus. All significant transactions have been recognized in the financial statements in the proper period.

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected. The most sensitive estimates affecting the financial statements were:

> Management's estimate of the allowance for doubtful accounts is based on historical sales, historical loss levels, and an analysis of the collectability of individual accounts. We evaluated the key factors and assumptions used to develop the allowance for doubtful accounts in determining that it is reasonable in relation to the financial statements taken as a whole.
>
> Management's estimate of the depreciation expense and related accumulated depreciation is based on the useful lives of the fixed assets. We evaluated the key factors and assumptions used to develop the accumulated depreciation in determining that it is reasonable in relation to the financial statements taken as a whole.
>
> The financial statement disclosures are neutral, consistent, and clear.

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Difficulties Encountered in Performing the Audit

We encountered no significant difficulties in dealing with management in performing and completing our audit.

Corrected and Uncorrected Misstatements

Professional standards require us to accumulate all misstatements identified during the audit, other than those that are clearly trivial, and communicate them to the appropriate level of management. Management has corrected all such misstatements. In addition, none of the misstatements detected as a result of audit procedures and corrected by management were material, either individually or in the aggregate, to the financial statements taken as a whole.

Disagreements with Management

For purposes of this letter, a disagreement with management is a financial accounting, reporting, or auditing matter, whether or not resolved to our satisfaction, that could be significant to the financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of our audit.

Management Representations

We have requested certain representations from management that are included in the management representation letter dated May 28, 2014.

Management Consultations with Other Independent Accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the Company's financial statements or a determination of the type of auditor's opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

Other Audit Findings or Issues

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the Company's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

Other Matters

With respect to the supplementary information accompanying the financial statements, we made certain inquiries of management and evaluated the form, content, and methods of preparing the information to determine that the information complies with U.S. generally accepted accounting principles, the method of preparing it has not changed from the prior period, and the information is appropriate and complete in relation to our audit of the financial statements. We compared and reconciled the supplementary information to the underlying accounting records used to prepare the financial statements or to the financial statements themselves.

The main objective of internal accounting control is to segregate accounting duties such that an individual who has access to assets (cash receipts, signed checks, equipment, etc.) does not also have access to the accounting records that control the assets. Proper segregation of duties provides reasonable assurance that an individual would be prevented from removing an asset from the company and concealing that activity by altering the related accounting records. Due to the size of the entity and number of personnel available for accounting duties, there is limited segregation of duties. Accordingly, an appropriate segregation of responsibilities may not be practical in many areas. Until such controls are in place, it is important that management and the Board of Directors consider this when reviewing accounting activities and information.

This information is intended solely for the use of Board of Directors and management of Presbyterian Children's Homes and Services of Missouri and is not intended to be, and should not be, used by anyone other than these specified parties.

Pattillo, Brown & Hill, L.L.P.

May 28, 2014

PATTILLO, BROWN & HILL, L.L.P.
CERTIFIED PUBLIC ACCOUNTANTS ■ BUSINESS CONSULTANTS

To the Board of Directors
Presbyterian Children's Homes and
Services of Missouri
St. Louis, Missouri

Members of the Board:

In planning and performing our audit of the financial statements of Presbyterian Children's Homes and Services of Missouri (a nonprofit organization) for the year ended December 31, 2013, we considered the Organization's internal control structure to determine our auditing procedures for the purpose of expressing an opinion on the financial statements and not to provide assurance on the internal control structure.

However during our audit, we became aware of certain matters that are opportunities for strengthening internal controls and operating efficiency. The memorandum that accompanies this letter summarizes our comments and suggestions regarding those matters. This letter does not affect our report dated May 28, 2014, on the financial statements of Presbyterian Children's Homes and Services of Missouri.

We will review the status of these comments during our next audit engagement. We have already discussed many of these comments and suggestions with various personnel, and we will be pleased to discuss them in further detail at your convenience, to perform any additional study of these matters, or to assist you in implementing the recommendations.

Pattillo, Brown & Hill, L.L.P.

May 28, 2014

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PRESBYTERIAN CHILDREN'S HOMES AND SERVICES OF MISSOURI

COMMENTS AND SUGGESTIONS

FOR THE YEAR ENDED DECEMBER 31, 2013

INTERNAL ACCOUNTING CONTROLS

An important part of effective internal controls within an organization is segregating duties such that an individual who has access to assets (cash receipts, signed checks, equipment, etc.) does not also have access to the accounting records that control the assets. Proper segregation of duties provides reasonable assurance that an individual would be prevented from removing an asset from the company and concealing that activity by altering the related accounting records. Though it is basic, proper segregation is by far the most important control as it can ensure that errors or irregularities are prevented or detected on a timely basis by employees in the normal course of business.

Fundamentally speaking, segregation of duties means that no single individual should have control over two or more phases of a transaction or operation. If a single person can carry out and conceal errors and/or irregularities in the course of performing their day-to-day activities, they have generally been assigned or allowed access to incompatible duties or responsibilities.

When we review duties or responsibilities, we broadly classify them into four categories:

1. *Authorization*- the process of reviewing and approving transactions or operations;
2. *Custody*- the process of having access to, or control over, any physical asset such as cash, checks, equipment, supplies or materials;
3. *Record-keeping*- the process of creating and maintaining records with regard to revenues, expenditures, inventories, and personnel transactions; these may be manual records or records maintained in automated computer systems; and
4. *Reconciliation*- the process of verifying the handling or recording of transactions to ensure that all transactions are valid, properly authorized and properly recorded on a timely basis.

In an ideal system, different employees would perform each of these four major functions. However, we realize that in small companies there are usually a limited number of personnel available for accounting duties; accordingly, an appropriate segregation of responsibilities may not be practical in many areas. Nevertheless, we encourage you to consider procedures that can be implemented or continued by your existing personnel to maintain and improve your internal accounting control. Management might even consider utilizing personnel outside of the accounting department or members of the board to perform certain procedures. Of course, all measures taken to segregate duties should be cost-beneficial to the organization.

GENERAL INTERNAL CONTROLS

The main objective of internal accounting control is to segregate accounting duties such that an individual who has access to assets (cash receipts, signed checks, equipment, etc.) does not also have access to the accounting records that control the assets. Proper segregation of duties provides reasonable assurance that an individual would be prevented from removing an asset from the company and concealing that activity by altering the related accounting records.

In entities like the Presbyterian Children's Home and Services of Missouri there is a limited number of personnel available for accounting duties. Accordingly, an appropriate segregation of responsibilities may not be practical in many areas. However, certain procedures, as described below, can be implemented and/or continued by your existing personnel to improve your internal accounting control.

- Cash: Bank reconciliations should be prepared on a monthly basis by someone with no other cash disbursement or cash receipts duties. As an alternative, the bank reconciliation should be reviewed by someone with no other cash duties. In entities with limited personnel, the Board may choose to review the monthly bank reconciliations and supporting details (check copies and invoices to support the disbursements and deposit slips to support the deposits). Blank checks should be kept in a locked drawer in the office of the individual charged with the check signing duty.

- Cash receipts: Mail receipts should be opened and restrictively endorsed by one individual, who should prepare a daily log of such check and cash receipts. Another individual should then prepare the bank deposit and record the checks and cash in the cash receipts journal. An individual independent of the cash receipts process should make the actual bank deposits and provide the deposit slip for reconciliation to the cash receipts journal. The Board or another independent individual should periodically compare the daily log to the cash receipts journal and to the subsequent bank statement.

- Cash Disbursements: There should be a formal process to review and authorize the payment of invoices and bills that are to be paid. The mail should be opened and stamped with the date and the word received, and entered into the A/P system. The invoice should be approved by board of directors of another independent individual, who should indicate their approval with initials or another method. When an invoice is paid, the check copy should be attached and the invoice should be cancelled by stamping it paid. The Board or another independent individual should record the payment after it is paid.

- Check signing: Checks are currently signed by (one / two) individuals if the checks are for amounts over a certain dollar amount. All check signers should review the documentation supporting the check. In addition, the Board should review check copies included with the bank statements on a monthly basis.

- Petty Cash: Petty cash should be controlled by one person who is accountable for the funds in a secure location. To make a disbursement from petty cash, a petty cash voucher should be filled out and turned in at the same time. A receipt should always be obtained after the purchases are made. Once the receipt is received, it should be stapled to the voucher. The amount of cash and receipt totals in the petty cash should always add up to the amount of the original petty cash balance. The receipts are expensed to the appropriate expense account in the accounting records. A person other than the one in charge of the petty cash should review the petty cash periodically to ensure that the funds are being properly managed.

- Payroll: Payroll checks should be prepared by someone who has no other payroll and personnel duties, such as timekeeping, distribution of checks, and hiring of employees. Paychecks should periodically be distributed by an employee with no other payroll duties. In addition, the payroll registers should be reviewed by a supervisory official or the Board, who should indicate approval by initialing the register.

While policies and procedures have been aligned with Presbyterian Children's Home and Services and PCHAS-MO is working diligently to meet these expectations and controls, it is important that management and the Board of Directors review accounting activities on a detailed basis and be aware of additional procedures that can be implemented to remove or minimize risks as much as possible.

CREDIT CARDS

During our audit of controls with regard to credit card purchases, we found that the organization has implemented a procedure which helps document purchases in the event that a receipt is lost or missing. However, we noted that there were several instances in which a receipt was not included in the documentation or there was no documentation to verify the purchases were approved for reasonable business purposes. We recommend management continue to emphasize the importance of proper credit card usage as well as the requirement to obtain and properly complete the declaration of lost evidence form when a receipt has been lost or is not provided.

ACCOUNTING SOFTWARE SYSTEMS

During our audit of both affiliated organizations, we noted that each organization operates or maintains their own accounting records on separate accounting software systems. This results in slightly different accounting and reporting structures. The use of different accounting software can lead to challenges in integration and business inefficiencies as the organizations continue to grow and merge their organizational and accounting structures. In an effort to encourage the alignment of the organizations, we would recommend the advantages and benefits of using the same accounting software system which vast outweigh the drawbacks. We highly encourage the affiliated organizations to work toward using the same accounting software which should help alleviate or minimize compatibility problems through the complexity of using two separate accounting structure systems. We believe that through the use of a consistent and similar accounting software system the organizations can increase processing and output efficiency, promote cost and time savings, and allow the organizations to concentrate on accomplishing their true mission of providing services and support to children and families in need.

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We appreciate the opportunity to be of service to **Presbyterian Children's Homes and Services of Missouri**. If you have any questions or would like to discuss the aforementioned, please contact our office.