PRESBYTERIAN CHILDREN'S
HOMES AND SERVICES
(a non-profit organization)
FINANCIAL STATEMENTS AND
REPORT OF INDEPENDENT
CERTIFIED PUBLIC ACCOUNTANTS
December 31, 2011 and 2010

Presbyterian Children's
Homes & Services

PRESBYTERIAN CHILDREN'S HOMES AND SERVICES

FINANCIAL STATEMENTS
AND
REPORT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS

DECEMBER 31, 2011 AND 2010

PRESBYTERIAN CHILDREN'S HOMES AND SERVICES

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Presbyterian Children's Homes & Services

April 29, 2012

Dear Friends of Presbyterian Children's Homes & Services:

During 2011, Presbyterian Children's Homes & Services continued our long tradition of providing Christ-centered child care services, in which we ministered to the spiritual, physical, intellectual, emotional and social needs of children. We are steadfast in our mission to offer Christ-centered services to children in need and their families by providing a place of hope and healing. During the year we continued our effort to enrich and strengthen our services as we look forward with much anticipation to serving the needs of even more children and families in the years ahead.

In 2011, we continued our commitment to partner with like minded organizations to expand our services through our strategic alliance with the Methodist Children's Home, Masonic Children & Family Services and Juliette Fowler Homes that allows us to collectively serve children with ever increasing needs. These programs provide an opportunity for us to continue to broaden the continuum of services to help meet the growing needs of children and their families in crisis.

We are pleased to present the 2011 audited financial statements of the Presbyterian Children's Homes and Services. These financial statements help share the story of the work we are doing with children and families in need. Financial statements cannot begin to measure the healing of wounds that have torn families apart or provide a sense of the comfort and security that our young people feel in our care. However, these financial statements do reflect the tremendous sense of stewardship that the Board of Trustees, management and staff have felt toward the Christian mission we serve. These financial statements are a reflection of our current ministries and the strategic direction set by our Board of Trustees. Each year the Agency's financial statements are audited by a certified public accounting firm as a means of providing assurance of the Agency's stewardship of its resources.

There is an ever increasing number of children who live in unsafe environments due to abuse, neglect, abandonment or other family crises. This fact calls us to continue our Christian mission of meeting the needs of these children. We feel a strong sense of commitment to effectively and efficiently manage the resources that we have been blessed to receive. By coming together as a community in Christ, we can provide the human and financial resources that will allow us to continue to serve many more children and families who need our care and support.

Sincerely yours,

Ed Knight

Ed Knight
President

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ATCHLEY & ASSOCIATES LLP
CERTIFIED PUBLIC ACCOUNTANTS & BUSINESS ADVISORS

REPORT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS

Board of Directors
Presbyterian Children's Homes and Services
Austin, Texas

We have audited the accompanying statements of financial position of Presbyterian Children's Homes and Services, (PCHAS) (a non-profit organization) as of December 31, 2011 and 2010, and the related statements of activities, and cash flows for the years then ended. These financial statements are the responsibility of PCHAS's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of PCHAS, as of December 31, 2011 and 2010, 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.

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Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The supplemental information in Schedule of Functional Expenses (pages 26 through 29) is presented for purposes of additional analysis and is not a required part of the basic 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. This information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to 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 basic financial statements as a whole.

Atchley & Associates, LLP

Austin, Texas
May 16, 2012

FINANCIAL STATEMENTS

PRESBYTERIAN CHILDREN'S HOMES AND SERVICES

STATEMENTS OF FINANCIAL POSITION

DECEMBER 31, 2011 AND 2010

	2011			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
ASSETS				
Cash and cash equivalents	$ 3,932,884	$ 1,334,922	$ 10,857	$ 5,278,663
Short-term investments	25,000	-	-	25,000
Accounts receivable, net of allowance	220,472	-	-	220,472
Interest receivable	51,965	-	-	51,965
Contributions receivable, net of allowance and discount	301,321	2,930,169	641,065	3,872,555
Estates receivable	335,836	-	41,019	376,855
Prepaid assets	15,229	-	-	15,229
Notes receivable	1,192	-	-	1,192
Long-term investments	45,601,643	1,960,626	50,942,945	98,505,214
Property and equipment, net of accumulated depreciation	5,598,524	-	-	5,598,524
Total Assets	$ 56,084,066	$ 6,225,717	$ 51,635,886	$ 113,945,669
LIABILITIES AND NET ASSETS				
Liabilities:				
Accounts payable	$ 328,361	$ -	$ -	$ 328,361
Payroll payable	34,414	-	-	34,414
Other liabilities	42,042	-	-	42,042
Compensated absences	368,261	-	-	368,261
Total Liabilities	773,078	-	-	773,078
Net Assets:				
Unrestricted				
Board designated	45,236,789	-	-	45,236,789
Undesignated	10,074,199	-	-	10,074,199
Total Unrestricted	55,310,988	-	-	55,310,988
Temporarily restricted	-	6,225,717	-	6,225,717
Permanently restricted	-	-	51,635,886	51,635,886
Total Net Assets	55,310,988	6,225,717	51,635,886	113,172,591
Total Liabilities and Net Assets	$ 56,084,066	$ 6,225,717	$ 51,635,886	$ 113,945,669

The accompanying notes are an integral part of this statement.

2010			
Unrestricted	Temporarily Restricted	Permanently Restricted	Total
$ 1,625,527	$ 1,097,130	$ 1,780	$ 2,724,437
31,990	-	-	31,990
236,237	-	-	236,237
83,960	-	-	83,960
174,696	2,911,496	603,105	3,689,297
712,409	-	102,019	814,428
30,357	-	-	30,357
1,544	-	-	1,544
48,682,980	2,112,009	52,398,947	103,193,936
5,856,195	-	-	5,856,195
$ 57,435,895	$ 6,120,635	$ 53,105,851	$ 116,662,381
$ 329,975	$ -	$ -	$ 329,975
27,513	-	-	27,513
24,786	-	-	24,786
379,355	-	-	379,355
761,629	-	-	761,629
47,631,565	-	-	47,631,565
9,042,701	-	-	9,042,701
56,674,266	-	-	56,674,266
-	6,120,635	-	6,120,635
-	-	53,105,851	53,105,851
56,674,266	6,120,635	53,105,851	115,900,752
$ 57,435,895	$ 6,120,635	$ 53,105,851	$ 116,662,381

The accompanying notes are an integral part of this statement.

PRESBYTERIAN CHILDREN'S HOMES AND SERVICES

STATEMENTS OF ACTIVITIES

FOR THE YEARS ENDED DECEMBER 31, 2011 AND 2010

	2011			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
REVENUE, GAINS AND OTHER SUPPORT				
Contributions and bequests	$ 4,974,773	$ 761,854	$ 255,659	$ 5,992,286
Fees	2,790,502	-	-	2,790,502
Investment income	3,136,965	365,110	-	3,502,075
Change in fair value of split interest agreements	-	(58,567)	5,688	(52,879)
Gain (loss) on sale of assets	39,193	-	-	39,193
Other income	58,698	-	-	58,698
Net assets released from restrictions	962,953	(962,953)	-	-
Total Revenue, Gains and Other Support	11,963,084	105,444	261,347	12,329,875
Net realized and unrealized gains (losses) on long-term investments	(895,382)	(362)	(1,731,312)	(2,627,056)
Total Revenue, Realized & Unrealized Gains (losses), and other support	11,067,702	105,082	(1,469,965)	9,702,819
EXPENSES				
Itasca Program	1,505,973	-	-	1,505,973
Waxahachie Program	2,198,793	-	-	2,198,793
San Antonio Program	692,172	-	-	692,172
Austin Program	575,369	-	-	575,369
Weatherford Program	124,872	-	-	124,872
Foster Care & Adoption Services	2,724,719	-	-	2,724,719
Child and Family Programs	1,764,782	-	-	1,764,782
Advanced & Student Education	332,128	-	-	332,128
Program Services	9,918,808	-	-	9,918,808
Fundraising	1,152,815	-	-	1,152,815
Management and General	1,359,357	-	-	1,359,357
Support Services	2,512,172	-	-	2,512,172
Total Expenses	12,430,980	-	-	12,430,980
CHANGE IN NET ASSETS	(1,363,278)	105,082	(1,469,965)	(2,728,161)
NET ASSETS, BEGINNING OF YEAR	56,674,266	6,120,635	53,105,851	115,900,752
NET ASSETS, END OF YEAR	$ 55,310,988	$ 6,225,717	$ 51,635,886	$ 113,172,591

The accompanying notes are an integral part of this statement.

2010			
Unrestricted	Temporarily Restricted	Permanently Restricted	Total
$ 4,050,454	$ 1,112,757	$ 1,149,902	$ 6,313,113
2,383,698	-	-	2,383,698
2,686,964	377,969	-	3,064,933
-	117,519	42,470	159,989
(18,193)	-	-	(18,193)
69,580	-	-	69,580
812,021	(812,021)	-	-
9,984,524	796,224	1,192,372	11,973,120
5,729,788	538,415	1,148,281	7,416,484
15,714,312	1,334,639	2,340,653	19,389,604
1,673,815	-	-	1,673,815
2,155,348	-	-	2,155,348
751,373	-	-	751,373
576,427	-	-	576,427
139,672	-	-	139,672
2,583,009	-	-	2,583,009
1,850,978	-	-	1,850,978
358,354	-	-	358,354
10,088,976	-	-	10,088,976
1,100,433	-	-	1,100,433
1,270,942	-	-	1,270,942
2,371,375	-	-	2,371,375
12,460,351	-	-	12,460,351
3,253,961	1,334,639	2,340,653	6,929,253
53,420,305	4,785,996	50,765,198	108,971,499
$ 56,674,266	$ 6,120,635	$ 53,105,851	$ 115,900,752

The accompanying notes are an integral part of this statement.

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PRESBYTERIAN CHILDREN'S HOMES AND SERVICES
STATEMENTS OF CASH FLOWS
YEARS ENDED DECEMBER 31, 2011 AND 2010

	2011	2010
CASH FLOWS FROM OPERATING ACTIVITIES		
Cash received from contributions, bequests, etc.	$ 5,764,073	$ 5,463,469
Cash received from service recipients	2,798,491	2,325,656
Investment income	3,495,339	3,113,813
Miscellaneous receipts	66,826	98,528
Cash paid to employees and suppliers	(11,856,597)	(11,789,306)
Net Cash Provided (Used) by Operating Activities	268,132	(787,840)
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of fixed assets	(143,673)	(132,315)
Cash received from sale of assets	-	-
Disposal of assets	5,790	8,768
(Gain) loss on sale of assets	39,193	(18,193)
Purchase of investments	(3,313,632)	(4,657,042)
Proceeds from sales of investments	5,414,029	5,453,004
Net Cash Provided by Investing Activities	2,001,707	654,222
CASH FLOWS FROM FINANCING ACTIVITIES		
Cash received from contributions, bequests, etc.	284,387	1,097,224
Cash received from merger activity	-	39,455
Net Cash Provided by Financing Activities	284,387	1,136,679
NET INCREASE IN CASH AND CASH EQUIVALENTS	2,554,226	1,003,061
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	2,724,437	1,721,376
CASH AND CASH EQUIVALENTS, END OF YEAR	$ 5,278,663	$ 2,724,437
RECONCILIATION OF CHANGE IN NET ASSETS TO NET CASH USED BY OPERATING ACTIVITIES		
Change in net assets	$ (2,728,161)	$ 6,929,253
Adjustments to reconcile change in net assets to net cash used by operating activities:		
Depreciation	395,554	422,595
(Increase) decrease in accounts receivable	15,765	(31,155)
(Increase) decrease in interest receivable	31,995	6,111
(Increase) decrease in contributions receivable	(183,258)	(356,947)
(Increase) decrease in prepaid assets	15,128	337,566
(Increase) decrease in estates receivable	437,573	556,665
(Increase) decrease in notes receivable	352	2,061
Increase (decrease) in accounts payable	(1,614)	(96,651)
Increase (decrease) in payroll liabilities	6,901	4,995
Increase (decrease) in compensated absences payable	(11,094)	7,117
Increase (decrease) in other liabilities	17,256	(110,458)
Net realized and unrealized (gains) losses on long-term investments	2,627,056	(7,416,484)
Contributions restricted for long-term investments	(284,387)	(1,097,224)
Contributions of investments and fixed assets	(31,741)	36,523
(Gain) loss on sale of assets	(39,193)	18,193
Net Cash Provided (Used) by Operating Activities	$ 268,132	$ (787,840)

The accompanying notes are an integral part of this statement.

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1. ORGANIZATION AND PURPOSE

Presbyterian Children's Homes and Services (PCHAS) is a Texas non-profit corporation established in 1903. PCHAS provides a variety of Christ-centered childcare services which minister to the spiritual, physical, intellectual, emotional, and social needs of dependent and neglected children. PCHAS operates group foster care homes in Itasca, Waxahachie, Austin, and San Antonio. The Foster Care Program provides therapeutic foster care in traditional foster homes throughout several communities in Texas. The Houston Adoption program assists children in finding their forever family. In addition to the homes, the Child and Family Programs located throughout Texas and Louisiana provide a child welfare network bringing together churches, schools, and other local resources to meet the varying needs of children and their families. The Advanced Education Program provides support to and funding for former residents who are interested in pursuing higher education, vocational, technical, or job training beyond a high school education. The Weatherford Single Parent and Family program works to bring economic and emotional stability to children and their families. PCHAS is primarily supported through donor contributions, fees from families and the Texas Department of Family and Protective Services, and investment income.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements of PCHAS have been prepared in conformity with generally accepted accounting principles. The following is a summary of the significant policies.

Basis of Presentation

The financial statements of PCHAS were prepared using the accrual basis of accounting. Under this basis, revenue is recorded when earned and expenses are recorded at the time liabilities are incurred. PCHAS has adopted Financial Accounting Standards Board (FASB) Codification Section 958.605 *Not for Profit Entities Revenue Recognition* and FASB Codification Section 958.205 *Not-for-Profit Entities Presentation of Financial Statements.* FASB Codification Section 958.605 requires that unconditional promises to give (pledges) be recorded as receivables and revenue and requires that the organization distinguish between contributions received for each net asset category in accordance with donor-imposed restrictions. FASB Codification Section 958.205 requires the statements be organized on the basis of unrestricted, temporarily restricted, and permanently restricted net assets for external reporting. This presentation demonstrates the existence or absence of donor-imposed restrictions. The financial statements include a Statement of Financial Position, a Statement of Activities, a Statement of Cash Flows, and related notes. In addition, we have provided a Supplemental Schedule of Functional Expense for 2011. The Financial Accounting Standards Board is the accepted standard setting body for non-profit organizations.

(Continued)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Cash and Cash Equivalents

PCHAS considers all highly liquid investments with a maturity of three months or less when purchased to be cash equivalents.

Investments

Investments in marketable securities are carried at market based on the closing prices on the stock exchange as of the last day of the period. Net realized and unrealized gains (losses) are reported as changes in unrestricted or temporarily restricted net assets based on any donor restrictions. PCHAS carries its investments in real estate at fair market value.

Investments include perpetual trusts in which PCHAS has an irrevocable right to receive the income earned on the trust assets in perpetuity, but never receives the assets which are held in trust by a third party. The interests in perpetual trusts are valued at the latest available market value. Changes in unrealized and realized gains (losses) are recorded as changes in permanently restricted net assets.

Investment Pools

PCHAS pools donor-restricted and board-designated endowments into pooled investment accounts. Realized and unrealized gains from the pooled investment accounts are allocated to the individual donor accounts based on the daily average of the market value of each endowment to the market value of the pooled investment accounts.

The fair value of assets in an individual donor restricted endowment are all above the endowments historic dollar value.

Accounts Receivable

Accounts receivable consists primarily of program services fees. An allowance for uncollectible accounts is determined using the aging method. All accounts over 90 days are reviewed to determine an allowance. A general reserve, based on historical experience, is created for accounts under 90 days unless there is an unusual matter in which PCHAS is aware.

Contributions and Estates Receivable

Unconditional promises to give are recognized as revenue in the period the promise is received. Conditional promises to give are recognized only when the condition on which they depend is substantially met making the promise unconditional. PCHAS is the beneficiary of several split interest agreements that include various trusts and charitable gift annuities administered by third parties. The receivable for the split interest agreements is recorded at the present value of the estimated future benefits to be received when the trust assets are distributed.

(Continued)

Contributions and Estates Receivable (Continued)

Estates are recognized in the period when notification is received. The receivable for the estates is recorded at the estimated value of PCHAS's interest in the estate when the estate assets are distributed.

Fixed Assets

PCHAS has adopted a capitalization threshold of $1,000 and a useful life of five years or more. Land, buildings, and equipment are stated at cost less accumulated depreciation. Depreciation is calculated on the straight-line basis with the following estimated useful lives:

Asset Type	Useful Life
Vehicles	5 years
Furniture, fixtures and equipment	5 -10 years
Buildings and improvements	10 - 40 years

Donated fixed assets are valued at their estimated fair value at time of donation and are reported as unrestricted support unless explicit donor stipulations specify how the donated assets must be used. Gifts of long-lived assets with explicit restrictions and gifts of cash or other assets that must be used to acquire long-lived assets are reported as restricted support. Absent explicit donor imposed stipulations, PCHAS reports expirations of donor restrictions when the donated or acquired long-lived assets are placed in service.

Donated Materials, Supplies and Facility Usage

Donated items and free use of facilities are valued at the estimated fair value at the date of donation. As donated items are used by our programs, a corresponding expense is recorded.

Donated Services

Donated services are recognized as contributions if the services create or enhance non-financial assets or if the services require specialized skills, are performed by people with those skills, and would otherwise be purchased by PCHAS. In addition, volunteers provide assistance with specific programs, fundraising, and work on many committees that is not recognized as revenue since the recognition criteria were not met.

Contributions, Investment Income, and Gains Restricted by Donors

PCHAS reports gifts or investment income and gains as restricted income if it is received with donor stipulation that restricts the gift's use or income to a specific purpose or has a time restriction. When a restriction is met, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets released from restriction. If these restrictions are met in the same period in which the gift or income is earned, the gift or income is recorded as unrestricted support.

(Continued)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Estimates

In the preparation of financial statements in conformity with generally accepted accounting principles, management uses estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities and the reported revenue and expenses. While management believes these estimates to be reasonable, actual results could differ from those estimates.

Expense Allocation

The costs of providing various programs and other activities have been summarized on a functional basis in a supplemental schedule, the Schedule of Functional Expenses, for the year ended December 31, 2011. Accordingly, certain costs in the Statement of Activities and in the supplemental schedule, the Schedule of Functional Expenses have been allocated among the programs and supporting services benefited.

Income Tax Status

PCHAS is exempt from federal income tax under Section 501(c)3 of the Internal Revenue Code. In addition, PCHAS 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.

PCHAS 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.

Compensated Absences

Full-time employees earn annual compensated vacation time of 2 to 4 weeks based upon their position and length of service. The maximum accrual allowed is 1 ½ times the annual accrual. Upon termination, any unused vacation time is paid to the employee. Full-time employees accrue one day of sick leave per month. A maximum of sixty days may be accrued by each employee. Upon termination of employment, unused sick leave is forfeited unless the employee has 5 years or more of service. If the employee has 5 years or more of service, they are paid 25% of their sick leave accrual upon voluntary termination.

Reclassifications

Certain prior period amounts have been reclassified to conform to current period presentations. Such reclassifications had no effect on previously reported change in net assets.

(Continued)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Subsequent Events

Management of PCHAS has evaluated subsequent events for disclosure through the date of the Report of the Independent Certified Public Accountants, the date the financial statements were available to be issued.

3. CASH AND INVESTMENTS

Deposits

PCHAS invests cash in excess of daily requirements in an overnight investment account.

Long-term Investments

A portion of long-term investments is held in pooled funds at Texas Presbyterian Foundation (TPF) and is invested generally 70% in equities and 30% in fixed income investments.

PCHAS also holds some investments in real estate, mineral interests, notes receivable and securities all of which were donated. Long-term investments at the end of the year consist of the following:

	December 31, 2011		December 31, 2010	
Investment Type	Cost Basis	Market Value	Cost Basis	Market Value
TPF pooled funds - stocks, bonds, govt securities, real estate, alternative strategies	$ 32,155,172	$ 43,610,850	$ 32,206,832	$ 45,003,575
Equity securities	6,232,220	6,867,278	6,332,242	7,881,634
Debt securities	2,935,196	3,118,260	2,851,383	3,048,656
Beneficial interest in trusts	42,898,933	42,898,933	44,505,244	44,505,244
Alternative strategies	1,652,993	1,639,027	1,618,629	1,690,253
Real estate	314,646	314,646	1,047,085	1,047,085
Mineral interests	56,220	56,220	17,489	17,489
Total Investments	$ 86,245,380	$ 98,505,214	$ 88,578,904	$ 103,193,936

Fair Value Measurements

The following methods and assumptions were used in estimating the fair value disclosures for the financial instruments:

Investment securities - The fair values of investment securities are based on quoted market prices, where available. If quoted market prices are not available, fair values are based on quoted market prices for identical or similar securities.

Receivables - The carrying amounts reported in the statements of financial position for all receivables approximate those receivables' fair values.

Payables - The carrying amounts reported in the statements of financial position for all payables approximate those payables' fair values.

(Continued)

3. CASH AND INVESTMENTS (Continued)

Fair Value Measurements (Continued)

	2011		2010	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Financial assets:				
Interest receivables	$ 51,965	$ 51,965	$ 83,960	$ 83,960
Contribution receivables	3,872,555	3,953,621	3,689,297	3,768,781
Estates receivables	376,855	376,855	814,428	814,428
Long term investments	98,505,214	98,505,214	103,193,936	103,193,936

FASB Codification Section 820, *Fair Value Measurements and Disclosure,* establishes a framework for measuring fair value. That framework provides a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurements) and the lowest priority to unobservable inputs (Level 3 measurements). The three levels of the fair value hierarchy under FASB Codification Section 820 are described below:

Level 1 Inputs to the valuation methodology are unadjusted quoted prices for identical assets or liabilities in active markets that can be easily accessed.

Level 2 Inputs to the valuation methodology include:

Quoted prices for similar assets or liabilities in active markets;

Quoted prices for identical or similar assets or liabilities in inactive markets;

Inputs other than quoted prices that are observable for the asset or liability;

Inputs that are derived principally from or corroborated by observable market data by correlation or other means.

Level 3 Inputs to the valuation methodology are unobservable and significant to the fair value measurement.

The asset's or liability's fair value measurement level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. Valuation techniques used need to maximize the use of observable inputs and minimize the use of unobservable inputs.

Following is a description of the valuation methodologies used for assets measured at fair value. There have been no changes in the methodologies used at December 31, 2011 from prior periods.

Common stocks, corporate bonds and U.S. government securities: Valued at the closing price reported on the active market on which the individual securities are traded. Mutual funds are valued at the net asset value (NAV) of shares held at the end of the year.

Alternative investments which include pooled real estate funds, real estate, pooled alternative strategies fund, closely held hedge funds, closely held REITS and private equity are valued at other significant observable and unobservable inputs that include quoted prices of similar securities.

(Continued)

3. CASH AND INVESTMENTS (Continued)

Fair Value Measurements (Continued)

The methods described above may produce a fair value calculation that may not be indicative of net realizable value or reflective of future fair values. Furthermore, while PCHAS believes its valuation methods are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different fair value measurement at the reporting date.

The following table sets forth by level, within the fair value hierarchy, PCHAS assets at fair value as of December 31, 2011:

	Level 1	Level 2	Level 3	Total
TPF pooled funds - stocks, bonds, govt securities, real estate, alternative strategies	$ 39,141,477	$ 4,469,373	$ -	$ 43,610,850
Equity securities	6,867,278	-	-	6,867,278
Debt securities	3,118,260	-	-	3,118,260
Beneficial interest in trusts	32,028,667	6,632,035	4,238,231	42,898,933
Aternative strategies	-	-	1,639,027	1,639,027
Real estate	-	314,646	-	314,646
Mineral interests	55,794	-	426	56,220
	$ 81,211,476	$ 11,416,054	$ 5,877,684	$ 98,505,214

The following table sets forth a summary of changes in the fair value of Level 3 assets for the year ending December 31, 2011:

Beginning balance	$ 5,227,792
Asset changes	638,888
Income	40,874
Realized gain(loss)	5,408
Unrealized gain	(35,278)
Ending Balance	$ 5,877,684

The following table sets forth by level, within the fair value hierarchy, PCHAS assets at fair value as of December 31, 2010:

	Level 1	Level 2	Level 3	Total
TPF pooled funds - stocks, bonds, govt securities, real estate, alternative strategies	$ 40,995,445	$ 4,008,130	$ -	$ 45,003,575
Equity securities	7,881,634	-	-	7,881,634
Debt securities	3,048,657	-	-	3,048,657
Beneficial interest in trusts	34,117,700	6,850,425	3,537,119	44,505,244
Atemative strategies	-	-	1,690,253	1,690,253
Real estate	-	1,047,084	-	1,047,084
Mineral interests	17,069	-	420	17,489
	$ 86,060,505	$ 11,905,639	$ 5,227,792	$ 103,193,936

(Continued)

3. CASH AND INVESTMENTS (Continued)

The following table sets forth a summary of changes in the fair value of Level 3 assets for the year ending December 31, 2010:

Beginning balance	$ 4,115,469
Asset changes	631,842
Income	29,863
Realized gain(loss)	(66,037)
Unrealized gain	516,655
Ending Balance	$ 5,227,792

4. RECEIVABLES

Accounts Receivable

Accounts receivable includes fees from public and private sources to assist in the cost of childcare.

	2011	2010
Accounts receivable	$ 226,606	$ 244,204
Allowance for uncollectible accounts	(6,134)	(7,967)
Total	$ 220,472	$ 236,237

Contributions

Contributions receivable consists of the following:

	2011	2010
Donations receivable	$ 222,285	$ 107,226
Unrestricted pledges	88,764	72,239
Temporarily restricted pledges	1,193,376	1,169,525
Permanently restricted pledges	850	850
Split interest gifts	2,480,122	2,476,630
Total Receivables	3,985,397	3,826,470
Allowance for uncollectible pledges	(81,067)	(79,485)
Unamortized discount on pledges	(31,775)	(57,688)
Total	$ 3,872,555	$ 3,689,297

(Continued)

4. RECEIVABLES (Continued)

In calculating the present value of the long-term pledges, PCHAS used the IRS discount rate of the month for December. The rate applied to the pledges was based on the year in which the pledge was made. The rates are as follows:

IRS Discount Rate

Year	Rate	Year	Rate	Year	Rate
2001	4.8%	2005	5.4%	2009	3.2%
2002	4.0%	2006	5.8%	2010	1.8%
2003	4.2%	2007	5.0%	2011	1.6%
2004	4.2%	2008	3.4%		

PCHAS is the beneficiary in several split interest agreements. PCHAS is not the trustee nor does PCHAS exercise control over the assets of the trusts, but has been named as the remainder beneficiary. A receivable is recorded for the value provided by the third party trustee, which is the difference between the present value of expected future payments to the specified beneficiary and the market value of the assets. The change in fair value in 2011 from 2010 is a decrease of $52,879 and from 2009 to 2010 was an increase $159,989.

Total contribution receivables expected to be received within one year total $1,132,113; between one to five years $2,389,994; and longer than 5 years are $463,290.

Estates

PCHAS is the beneficiary in several estates that are pending distribution. Receivables from estates total $376,855 and $814,428, as of December 31, 2011 and 2010, respectively. Amounts expected to be received within one year are $335,836 and between one and five years $41,019.

5. ENDOWMENT FUNDS

PCHAS's endowment consists of a number of individual funds established for a variety of purposes. Its endowment includes both donor-restricted endowment funds and funds designated by the Board of Trustees to function as endowments. As required by GAAP, net assets associated with endowment funds, including funds designated by the Board of Trustees to function as endowments, are classified and reported based on the existence or absence of donor imposed restrictions.

(Continued)

5. ENDOWMENT FUNDS (Continued)

Interpretation of Relevant Law

The Board of Trustees of PCHAS has interpreted the Texas Uniform Prudent Management of Institutional Funds Act (TUPMIFA) as requiring the preservation of the purchasing power (real value) of the donor-restricted endowment funds absent explicit donor stipulations to the contrary. As a result of this interpretation, PCHAS classifies as permanently restricted net assets (1) the original value of gifts donated to the permanent endowment, (2) the original value of subsequent gifts to the permanent endowment, (3) 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, and (4) the portion of investment return added to the permanent endowment to maintain its purchasing power. For purposes of determining that portion, each year PCHAS adjusts permanently restricted net assets by an amount determined to be reasonable for use in the operations but also provide for the change in the average Consumer Price Index (CPI). If the endowment assets earn investment returns beyond the amount necessary to maintain the endowment assets' real value, that excess is maintained as endowment assets in permanently restricted net assets until appropriated by the Board for expenditure. In accordance with TUPMIFA, PCHAS 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) The general economic conditions;
4) The possible effect of inflation or 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 Classification by Type of Fund as of December 31, 2011

Endowment Type	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Donor restricted	$ -	$ 1,960,625	$ 51,635,886	$ 53,596,511
Board designated	45,236,789	-	-	45,236,789
Total investments	$ 45,236,789	$ 1,960,625	$ 51,635,886	$ 98,833,300

(Continued)

5. ENDOWMENT FUNDS (Continued)

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

Endowment Assets	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Beginning balance	$ 47,631,565	$ 2,112,009	$ 53,105,851	$ 102,849,425
Investment return				
Investment return	766,858	72,216	-	839,074
Net appreciation realized & unrealized	(463,642)	(362)	(1,725,624)	(2,189,628)
Total investment return	303,216	71,854	(1,725,624)	(1,350,554)
Contributions	-	-	255,659	255,659
Appropriation of endowment assets for expenditure	78,371	-	-	78,371
Transfer to undesignated	(2,776,363)	(223,238)	-	(2,999,601)
Ending balance	$ 45,236,789	$ 1,960,625	$ 51,635,886	$ 98,833,300

Endowment Net Asset Classification by Type of Fund as of December 31, 2010

Endowment Type	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Donor restricted	$ -	$ 2,112,009	$ 53,105,851	$ 55,217,860
Board designated	47,631,565	-	-	47,631,565
Total investments	$ 47,631,565	$ 2,112,009	$ 53,105,851	$ 102,849,425

(Continued)

5. ENDOWMENT FUNDS (Continued)

Changes in Endowment Net Assets for the Fiscal Year Ended December 31, 2010

Endowment Assets	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Beginning balance	$ 43,981,252	$ 1,726,384	$ 50,765,198	$ 96,472,834
Investment return				
Investment return	787,380	74,399	-	861,779
Net appreciation realized & unrealized	5,729,163	538,415	1,190,751	7,458,329
Total investment return	6,516,543	612,814	1,190,751	8,320,108
Contributions	-	-	1,149,902	1,149,902
Appropriation of endowment assets for expenditure	11,114	-	-	11,114
Transfer to undesignated	(2,877,344)	(227,189)	-	(3,104,533)
Ending balance	$ 47,631,565	$ 2,112,009	$ 53,105,851	$ 102,849,425

Return Objectives and Risk Parameters

PCHAS 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(s) as well as board-designated funds. Under this policy, as approved by the Board of Trustees, the endowment assets are invested in a manner that is intended to result in high yields while assuming a moderate level of investment risk. PCHAS expects its endowment funds, over time, to provide an average rate of return of approximately 8 percent annually. Actual returns in any given year may vary from this amount.

(Continued)

6. FIXED ASSETS

Property and equipment consist of the following at year-end:

	Balance 12/31/2010	Additions	Deletions	Balance 12/31/2011
Land	$ 1,023,596	$ -	$ -	$ 1,023,596
Buildings and improvements	9,475,763	65,937	-	9,541,700
Furniture and equipment	567,009	57,880	(42,000)	582,889
Vehicles	762,683	19,856	(137,335)	645,204
Total Fixed Assets	11,829,051	143,673	(179,335)	11,793,389
Less: accumulated depreciation	(5,972,856)	(395,554)	173,545	(6,194,865)
Net Fixed Assets	$ 5,856,195	$ (251,881)	$ (5,790)	$ 5,598,524

Depreciation expense totaled $395,554 in 2011 and $422,595 in 2010.

7. NET ASSET CLASSIFICATIONS

Unrestricted

Unrestricted net assets represent resources over which the board has discretionary authority.

Temporarily Restricted

Temporarily restricted net assets include gifts that were received and are designated for a specific use or have a time restriction. When the restrictions are met, the net assets are released from the temporarily restricted fund to the unrestricted fund and reported on the statement of activities.

Temporarily restricted net assets are available for the following purposes:

	2011	2010
Permanent improvements	$ 532,925	$ 422,142
Advanced education	2,427,766	2,423,871
General education	101,906	131,457
Christian education	4,248	7,073
Special services	18,246	19,595
Time restricted	2,807,925	2,887,297
Other	332,701	229,200
Total	$ 6,225,717	$ 6,120,635

(Continued)

7. NET ASSET CLASSIFICATIONS (Continued)

Temporarily Restricted (Continued)

Temporarily restricted net assets were released from donor restrictions by incurring expenses satisfying the following restricted purposes or by expiration of time restrictions:

	2011	2010
Permanent improvements	$ 174,419	$ 183,045
Advanced education	128,798	149,775
General education	92,049	97,634
Christian education	5,745	8,904
Time restrictions	522,317	367,095
Other	39,625	5,568
Total	$ 962,953	$ 812,021

Permanently Restricted

Permanently restricted net assets include endowment funds which PCHAS must hold in perpetuity and can only spend the income. Trusts held by a third party in perpetuity for the benefit of PCHAS are also included in this net asset category. Gains on these investments are available for use as specified by the donor. Permanently restricted net assets categorized by income restriction are as follows:

	2011	2010
Advanced education	$ 3,669,161	$ 3,700,087
General education	2,186,908	2,125,892
Christian education	192,393	192,438
Special services	10,553	10,553
Permanent improvements	1,095,589	1,075,599
Other	24,036	-
Undesignated	44,457,246	46,001,282
Total	$ 51,635,886	$ 53,105,851

8. EMPLOYEE TAX-DEFERRED ANNUITY PLAN

PCHAS has established a 403(b) tax deferred annuity plan to purchase annuity contracts for its employees in order to provide funds for their retirement or for their beneficiaries in the event of their death. All employees are eligible to contribute by voluntary salary reduction upon employment. All employees are eligible to receive employer contributions upon completion of one year of service or 1,000 hours of service in a twelve month period. Upon meeting eligibility requirements to receive employer contributions, PCHAS will contribute an amount equal to 3% of each employee's base salary as a non-matching contribution. PCHAS will make additional matching contributions based upon 200% of an employee's participation in the plan through a voluntary salary reduction up to a total match of 6%. PCHAS contributed $442,393 and $454,498 to the plan on behalf of employees during the year ended December 31, 2011 and 2010, respectively. PCHAS did not have an unfunded liability related to the Plan at December 31, 2011 and 2010. No significant changes were made to the plan.

(Continued)

9. CONCENTRATION OF CREDIT RISK

PCHAS maintains its cash in several financial institutions throughout Texas. These accounts at times may exceed federally insured limits. As of December 31, 2011, PCHAS's cash balances in financial institutions exceeded FDIC coverage by $5,326,907.

10. RELATED PARTY TRANSACTION

On October 15, 2010, PCHAS entered into an agreement with Charles E. Knight, President of PCHAS, for the sale of a single family residence donated to PCHAS during 2010 and located at 250 Goodnight Trail, Dripping Springs, Texas. Dr. Knight purchased the home at the certified appraisal value of $320,000 less a discount equal to the real estate commission of 6% or $19,200 that would have been paid if the property had been sold by a realtor. The net sales price totaled $300,800. The sale of the property was completed on January 13, 2011. In addition, PCHAS agreed to pay for electrical, plumbing and stucco repairs discovered by the buyer's home inspector and confirmed by a stucco specialist. PCHAS incurred $30,409 in total expenses related to holding the property, stucco repairs and electrical and plumbing repairs.

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SUPPLEMENTAL SCHEDULE

PRESBYTERIAN CHILDREN'S HOMES AND SERVICES

SCHEDULE OF FUNCTIONAL EXPENSES

FOR THE YEAR ENDED DECEMBER 31, 2011

	Residential Programs					
Classification	Itasca Program	Waxahachie Program	San Antonio Program	Austin Program	Weatherford Program	Foster Care & Adoption Program
Aftercare	$ -	$ -	$ -	$ -	$ -	$ -
Allowance	6,011	7,838	4,188	4,653	-	-
Association dues and fees	204	372	35	535	6	1,199
Bad debt expense	-	-	-	-	-	-
Bank service fees	69	103	30	21	-	-
Campus activities	1,205	1,838	1,582	1,488	-	-
Charitable giving	5,000	5,000	-	27	-	-
Children's choir	-	-	-	-		-
Children's gifts	14,437	18,818	3,554	3,815	160	3,275
Christian education	682	3,364	2,033	443	-	130
Clothing	31,946	19,698	4,021	5,863	206	13,694
Computer	9,787	22,356	5,585	6,859	1,213	33,297
Daycare	-	-	-	-	2,640	-
Depreciation	94,763	128,138	52,911	26,933	3,979	13,287
Employee relations	368	450	592	79	110	511
Entertainment and hospitality	1,211	3,906	1,640	1,133	47	11,347
Estate administration	-	-	-	-	-	-
Food	56,800	115,014	40,788	39,102	2,439	-
Foster care fees	-	-	-	-	-	994,533
Furniture and equipment	4,244	34,555	3,976	2,016	819	2,414
Grooming & personal care	4,287	7,164	2,731	3,296	573	2,144
Grounds maintenance	5,641	9,154	279	11,200	2,981	-
Housekeeping supplies	17,336	23,386	6,276	4,825	809	1,601
Insurance	35,755	51,705	25,549	20,416	4,104	40,332
Interest & financing fees	-	-	13	7	-	12
Legal	24	-	-	-	-	5,077
Licensing expense	2,272	965	917	1,113	-	-
Livestock management	10,095	-	-	-	-	-
Mailing services	-	-	-	-	-	-
Medical care	8,031	478	2,350	2,160	235	429
Employer Reimb Medical	-	-	-	-	-	-
Miscellaneous	47	475	107	32	-	235

Child & Family Programs	Advanced & Student Education Program	Total Program Services	Fundraising	Management and General	Total Support Services	Total
$ -	$ 441	$ 441	$ -	$ -	$ -	$ 441
-	27,250	49,940	-	-	-	49,940
684	137	3,172	21	7,903	7,924	11,096
-	-	-	-	23,021	23,021	23,021
159	-	382	-	123,022	123,022	123,404
-	-	6,113	-	-	-	6,113
-	-	10,027	-	1,000	1,000	11,027
-	-	-	-	-	-	-
-	583	44,642	-	-	-	44,642
140	-	6,792	-	-	-	6,792
-	-	75,428	-	-	-	75,428
20,665	2,318	102,080	25,248	17,886	43,134	145,214
-	-	2,640	-	-	-	2,640
6,607	8,006	334,624	28,141	32,789	60,930	395,554
1,774	271	4,155	898	1,216	2,114	6,269
6,563	222	26,069	5,511	1,812	7,323	33,392
-	-	-	-	31,732	31,732	31,732
-	-	254,143	-	-	-	254,143
-	-	994,533	-	-	-	994,533
730	140	48,894	1,609	539	2,148	51,042
-	-	20,195	-	-	-	20,195
-	-	29,255	-	-	-	29,255
186	44	54,463	283	1,639	1,922	56,385
23,367	6,400	207,628	20,469	42,921	63,390	271,018
90	-	122	-	-	-	122
-	-	5,101	-	2,864	2,864	7,965
-	-	5,267	-	-	-	5,267
-	-	10,095	-	-	-	10,095
-	-	-	38,193	-	38,193	38,193
-	-	13,683	-	-	-	13,683
-	-	-	-	-	-	-
-	45	941	-	334	334	1,275

(continued)

PRESBYTERIAN CHILDREN'S HOMES AND SERVICES

SCHEDULE OF FUNCTIONAL EXPENSES

FOR THE YEAR ENDED DECEMBER 31, 2011

Classification	Residential Programs Itasca Program	Waxahachie Program	San Antonio Program	Austin Program	Weatherford Program	Foster Care & Adoption Program
Office supplies	4,708	13,414	1,530	1,914	316	15,043
Outreach	-	5	196	589	947	4,506
Partnership programs	-	-	-	-	-	-
Personnel - salaries	719,786	990,547	329,515	277,867	62,680	1,039,031
Personnel - benefits and taxes	250,867	345,561	105,532	80,410	24,053	275,468
Photography	71	165	119	203	-	315
Post adoption services	-	-	-	-	-	3,471
Postal and delivery fees	939	928	186	65	55	3,470
Printing services	-	-	-	-	-	227
Program supplies	609	316	258	147	401	787
Public relations	211	98	12	17	41	4,593
Professional services	717	1,784	331	363	228	26,166
Recreation	12,125	26,931	9,142	10,000	889	-
Recruiting	3,230	4,893	1,198	1,212	147	9,173
Rent	4,791	4,875	212	167	20	75,390
Room & Board- College	-	-	-	-	-	-
Repairs and maintenance	40,209	93,803	17,058	5,360	3,130	4,082
Safety program	1,207	2,230	1,089	2,051	23	5,447
School activities	4,293	6,047	1,618	3,944	-	-
School supplies	2,912	6,983	1,051	708	-	-
Senior retreat	-	-	-	-	-	-
Special events	588	-	-	117	-	1,571
Staff training	2,836	3,222	1,065	914	70	11,860
Taxes	-	-	-	-	-	-
Telephone	4,960	13,425	5,016	4,768	2,265	23,269
Therapy/psychiatric care	2,375	1,840	1,520	2,084	440	-
Transportation maintenance	11,709	16,811	8,223	6,463	937	3,137
Transportation - gasoline	32,626	45,766	18,422	10,796	1,063	14,013
Travel - children	1	284	5	422	140	11,932
Travel	4,396	9,451	5,796	5,278	261	58,961
Tuition and fees	-	150	-	3,013	-	-
Tutoring/remedial education	-	-	-	-	-	-
Utilities	89,592	154,487	23,921	20,481	6,445	9,290
Total	$ 1,505,973	$ 2,198,793	$ 692,172	$ 575,369	$ 124,872	$ 2,724,719

Child & Family Program	Advanced & Student Education Program	Total Program Services	Fundraising	Management and General	Total Support Services	Total
8,023	439	45,387	4,447	7,380	11,827	57,214
149,809	-	156,052	-	-	-	156,052
-	-	-	-	-	-	-
1,018,718	158,150	4,596,294	617,756	731,394	1,349,150	5,945,444
302,132	27,854	1,411,877	127,471	182,902	310,373	1,722,250
28	-	901	360	-	360	1,261
-	-	3,471	-	-	-	3,471
1,545	264	7,452	70,182	3,679	73,861	81,313
3	-	230	78,620	-	78,620	78,850
2,931	485	5,934	180	-	180	6,114
608	6	5,586	5,446	9	5,455	11,041
390	72	30,051	20,930	36,683	57,613	87,664
-	-	59,087	-	-	-	59,087
3,134	1,085	24,072	21,481	1,493	22,974	47,046
23,385	14,467	123,307	250	206	456	123,763
-	731	731	-	-	-	731
1,695	1,433	166,770	9,143	12,954	22,097	188,867
488	91	12,626	852	126	978	13,604
-	-	15,902	-	-	-	15,902
7,506	4,792	23,952	-	-	-	23,952
-	2,090	2,090	-	-	-	2,090
1,136	-	3,412	22,855	-	22,855	26,267
2,132	893	22,992	1,401	1,727	3,128	26,120
-	-	-	-	49,570	49,570	49,570
31,769	1,752	87,224	7,763	5,772	13,535	100,759
11,221	245	19,725	-	-	-	19,725
943	361	48,584	4,903	1,022	5,925	54,509
12,445	2,918	138,049	7,580	4,586	12,166	150,215
-	283	13,067	-	-	-	13,067
121,277	5,101	210,521	27,069	25,832	52,901	263,422
-	61,764	64,927	-	-	-	64,927
-	-	-	-	-	-	-
2,499	995	307,710	3,753	5,344	9,097	316,807
$ 1,764,782	$ 332,128	$ 9,918,808	$ 1,152,815	$ 1,359,357	$ 2,512,172	$ 12,430,980