



Consolidated Financial Report  
June 30, 2011

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## Independent Auditor's Report

To the Boards of Directors  
The Children's Home Association of Illinois,  
Children's Home Foundation and Youth Farm, Inc.  
Peoria, Illinois

We have audited the accompanying consolidated statement of financial position of The Children's Home Association of Illinois, Children's Home Foundation and Youth Farm, Inc. (collectively the Organization) as of June 30, 2011, and the related consolidated statements of activities, cash flows and functional expenses for the year then ended. These financial statements are the responsibility of the Organization's management. Our responsibility is to express an opinion on these financial statements based on our audit. The prior year's summarized comparative information has been derived from the Organization's year ended 2010 consolidated financial statements and, in our report dated October 7, 2010, we expressed an unqualified opinion on those financial statements.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Organization's internal control over financial reporting. Accordingly, we express no such opinion. An audit 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 audit provides a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of The Children's Home Association of Illinois, Children's Home Foundation and Youth Farm, Inc. as of June 30, 2011, and the changes in their net assets and their cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated September 12, 2011, on our consideration of the Organization's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

*McGladrey & Pullen, LLP*

Peoria, Illinois  
September 12, 2011

The Children's Home Association of Illinois,  
Children's Home Foundation and Youth Farm, Inc.

Consolidated Statement of Financial Position  
June 30, 2011, with Comparative Totals for 2010

	2011	2010
<b>Assets</b>		
Cash and cash equivalents	\$ 4,518,722	\$ 3,624,749
Receivables:		
Accounts	2,638,664	3,098,742
Contributions from remainder trust and other trusts	38,000	33,000
Pledges, net of discount	4,650	24,449
Insurance coverage	-	875,000
Prepaid insurance and other	191,738	228,421
Investments	8,720,124	6,991,319
Property and equipment, net	4,619,767	4,556,554
Beneficial interest in perpetual trusts	10,905,000	9,636,000
Beneficial interest in charitable remainder trust	147,000	107,000
	<u>31,783,665</u>	<u>29,175,234</u>
<b>Total assets</b>	<b>\$ 31,783,665</b>	<b>\$ 29,175,234</b>
<b>Liabilities and Net Assets</b>		
Liabilities:		
Accounts payable and accrued expenses	\$ 1,978,022	\$ 2,973,222
Deferred revenue	691,847	680,030
Capital leases	85,616	122,270
Gift annuity	6,418	6,418
	<u>2,761,903</u>	<u>3,781,940</u>
<b>Total liabilities</b>	<b>2,761,903</b>	<b>3,781,940</b>
Commitments and Contingencies (Notes 10, 11 and 13)		
Net Assets:		
Unrestricted	16,787,483	14,390,107
Temporarily restricted	1,102,767	1,151,775
Permanently restricted	11,131,512	9,851,412
	<u>29,021,762</u>	<u>25,393,294</u>
<b>Total net assets</b>	<b>29,021,762</b>	<b>25,393,294</b>
<b>Total liabilities and net assets</b>	<b>\$ 31,783,665</b>	<b>\$ 29,175,234</b>

See Notes to Consolidated Financial Statements.

The Children's Home Association of Illinois,  
Children's Home Foundation and Youth Farm, Inc.

Consolidated Statement of Activities  
Year Ended June 30, 2011, with Comparative Totals for 2010

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total	
				2011	2010
Public support and revenue:					
Public support:					
Contributions	\$ 528,169	\$ 9,684	\$ 11,100	\$ 548,953	\$ 343,712
Special events	578,115	-	-	578,115	688,842
Revenue:					
Service fees	13,953,052	-	-	13,953,052	14,358,547
Grants	3,341,250	-	-	3,341,250	3,670,036
Tuition	3,456,748	-	-	3,456,748	3,356,048
Investment income	2,041,909	-	-	2,041,909	1,421,728
Other	134,257	-	-	134,257	92,149
Change in value of split interest agreements	(1,724)	40,000	1,269,000	1,307,276	340,863
Net assets released from restrictions	98,692	(98,692)	-	-	-
<b>Total public support and revenue</b>	<b>24,130,468</b>	<b>(49,008)</b>	<b>1,280,100</b>	<b>25,361,560</b>	<b>24,271,925</b>
Expenses:					
Program services:					
Residential and group home	5,754,215	-	-	5,754,215	5,702,931
Educational and transitional	5,021,598	-	-	5,021,598	5,128,655
Foster care	3,615,881	-	-	3,615,881	3,641,643
Community based services	5,844,098	-	-	5,844,098	6,208,119
Supporting services:					
Management and general	1,247,142	-	-	1,247,142	1,296,692
Development	250,158	-	-	250,158	277,573
<b>Total expenses</b>	<b>21,733,092</b>	<b>-</b>	<b>-</b>	<b>21,733,092</b>	<b>22,255,613</b>
<b>Change in net assets</b>	<b>2,397,376</b>	<b>(49,008)</b>	<b>1,280,100</b>	<b>3,628,468</b>	<b>2,016,312</b>
Net assets:					
Beginning of year	14,390,107	1,151,775	9,851,412	25,393,294	23,376,982
End of year	\$ 16,787,483	\$ 1,102,767	\$ 11,131,512	\$ 29,021,762	\$ 25,393,294

See Notes to Consolidated Financial Statements.

**The Children's Home Association of Illinois,  
Children's Home Foundation and Youth Farm, Inc.**

**Consolidated Statement of Cash Flows  
Year Ended June 30, 2011, with Comparative Totals for 2010**

	2011	2010
<b>Cash Flows from Operating Activities:</b>		
Change in net assets	\$ 3,628,468	\$ 2,016,312
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation and amortization	509,092	465,176
Provision for (recovery of) doubtful accounts	(3,199)	51,193
Net appreciation in fair value of investments	(1,220,188)	(597,688)
Change in value of split interest agreements	(1,307,276)	(340,863)
Changes in assets and liabilities:		
(Increase) decrease in:		
Receivables	1,351,352	(329,069)
Prepaid insurance and other	36,683	105,587
Increase (decrease) in:		
Accounts payable, accrued expenses and gift annuity	(995,200)	506,847
Deferred revenue	11,817	277,639
<b>Net cash provided by operating activities</b>	<b>2,011,549</b>	<b>2,155,134</b>
<b>Cash Flows from Investing Activities:</b>		
Proceeds from sale and maturity of investments	5,584,945	8,349,957
Proceeds from sale of property and equipment	36,343	-
Purchase of investments	(6,093,562)	(8,385,934)
Purchase of property and equipment	(602,672)	(700,584)
<b>Net cash used in investing activities</b>	<b>(1,074,946)</b>	<b>(736,561)</b>
<b>Cash Flows from Financing Activities:</b>		
Principal payments on borrowings	-	(35,913)
Principal payments on capital lease obligations	(42,630)	(40,472)
<b>Net cash used in financing activities</b>	<b>(42,630)</b>	<b>(76,385)</b>
<b>Net increase in cash and cash equivalents</b>	<b>893,973</b>	<b>1,342,188</b>
<b>Cash and Cash Equivalents:</b>		
Beginning	3,624,749	2,282,561
Ending	\$ 4,518,722	\$ 3,624,749
<b>Supplemental Disclosures of Cash Flow Information:</b>		
Cash payments for interest	\$ 6,254	\$ 8,412

See Notes to Consolidated Financial Statements.

**The Children's Home Association of Illinois,  
Children's Home Foundation and Youth Farm, Inc.**

**Consolidated Statement of Functional Expenses  
Year Ended June 30, 2011, with Comparative Totals for 2010**

	Program Services			Supporting Services			Total	
	Residential and Group Home	Educational and Transitional	Foster Care	Community Based Services	Management and General	Development	2011	2010
Salaries	\$ 3,811,025	\$ 3,274,403	\$ 1,609,185	\$ 3,698,485	\$ 654,644	\$ 162,614	\$ 13,210,356	\$ 13,582,244
Employee benefits	499,712	430,942	235,348	449,860	80,567	-	1,696,429	1,682,743
Payroll taxes and workers compensation insurance	411,385	358,409	179,899	394,323	69,287	11,389	1,424,692	1,484,602
Data processing	30,480	26,901	19,270	27,900	-	-	104,551	123,732
Contract services and professional fees	28,221	79,063	1,173,717	448,307	132,558	1,058	1,862,924	1,767,634
Activity fees, supplies and postage	143,751	54,227	43,107	97,002	1,731	22,771	362,589	326,451
Food and food service supplies	146,449	191,730	2,746	12,675	-	-	353,600	351,344
Telephone	72,752	64,208	45,992	67,572	-	-	250,524	250,838
Occupancy	125,999	136,337	75,508	97,241	6,159	-	441,244	610,149
Repairs, maintenance and equipment rental	106,018	57,840	33,204	52,299	10,677	-	260,038	268,789
Printing, publications and special events	10,275	9,069	6,495	9,406	53,212	50,420	138,877	161,415
Travel and transportation	148,180	44,727	155,961	253,359	40,077	869	643,173	637,030
Conferences, conventions and meetings	18,523	9,667	10,226	56,945	5,276	1,037	101,674	79,342
Individual assistance	40,855	119,223	258	126,610	-	-	286,946	318,688
Provision for (recovery of) doubtful accounts	3,575	(1,442)	751	(6,450)	367	-	(3,199)	51,193
Miscellaneous	10,908	6,059	6,214	3,684	56,467	-	83,332	85,183
<b>Total expenses before depreciation and interest</b>	<b>5,608,108</b>	<b>4,861,363</b>	<b>3,597,881</b>	<b>5,789,218</b>	<b>1,111,022</b>	<b>250,158</b>	<b>21,217,750</b>	<b>21,781,377</b>
Depreciation	146,107	160,235	18,000	54,880	123,891	-	503,113	459,227
Interest and amortization	-	-	-	-	12,229	-	12,229	15,009
<b>Total expenses</b>	<b>\$ 5,754,215</b>	<b>\$ 5,021,598</b>	<b>\$ 3,615,881</b>	<b>\$ 5,844,098</b>	<b>\$ 1,247,142</b>	<b>\$ 250,158</b>	<b>\$ 21,733,092</b>	<b>\$ 22,255,613</b>

See Notes to Consolidated Financial Statements.

**Notes to Consolidated Financial Statements**

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**Note 1. Nature of Activities and Summary of Significant Accounting Policies**

**Nature of activities:** The Children's Home Association of Illinois (the Association) is an Illinois not-for-profit corporation organized and existing with its mission being to provide children a childhood and future by protecting them, teaching them and healing them and by building strong communities and loving families. The Children's Home Foundation (the Foundation) is an Illinois not-for-profit corporation organized exclusively to financially support the purposes of the Association and actively raise funds for the exclusive use and benefit of the Association. The Foundation funds may be used to promote and enhance all general purposes of the Association in partnership with business and community. Youth Farm, Inc. is an Illinois not-for-profit corporation and is organized exclusively to financially support the operation, including programs and facilities, of the Youth Farm campus of the Association with its mission being consistent with that of the Association. The Association, the Foundation and Youth Farm, Inc. are hereafter referred to collectively as the "Organization".

The Organization's administrative office, residential treatment facilities, a school, a behavioral health services center, a family service center, a group home, five transitional living program homes and 69 acres of farmland including a house, garage, three barns and a machine shed are located in Peoria, Illinois. The Organization utilizes the farmland to take children fishing, camping and for other activities related to programs operated by the Organization.

A summary of the Organization's significant accounting policies follows:

**Principles of consolidation:** The consolidated financial statements include the accounts and transactions of the Association, the Foundation and Youth Farm, Inc. All significant interorganization account balances and transactions have been eliminated in consolidation.

**Contributions:** Gifts of cash and other assets are presented as restricted support if they are received with donor stipulations that limit the use of the donated assets. When a donor restriction expires, that is, when a stipulated time restriction ends or purpose restriction is accomplished, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets released from restrictions; however, donor restricted contributions whose restrictions are met in the same reporting period are reported as unrestricted support.

Gifts of land, buildings and equipment are presented as unrestricted support unless explicit donor stipulations specify how the donated assets must be used. Gifts of long-lived assets with explicit restrictions that specify how the assets are to be used and gifts of cash or other assets that must be used to acquire long-lived assets are reported as restricted support. Absent explicit donor stipulations about how long those long-lived assets must be maintained, the Organization reports expirations of donor restrictions when the donated or acquired long-lived assets are placed in service.

**Contributed services:** The Organization recognizes contribution support (and records related program expense) for certain services received at the fair value of those services. In the opinion of management, such services were not significant for the years ended June 30, 2011 and 2010. In addition, the Association receives support from numerous other volunteers for its various programs for which no value has been assigned.

**Revenue recognition:** Revenues from service fees and grants are classified as exchange transactions and such amounts are reported as deferred revenue until expended in accordance with the terms of the provider whereby revenue recognition occurs. Tuition revenue is recognized in the month of attendance based on school attendance levels times authorized rates. Interest income is recorded on the accrual basis. Dividends are recorded on the ex-dividend date.

**Notes to Consolidated Financial Statements**

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**Note 1. Nature of Activities and Summary of Significant Accounting Policies (Continued)**

**Cash and cash equivalents:** For purposes of reporting cash flows, all checking and money market funds are reported as cash equivalents, and investments in debt and equity securities, regardless of maturity, are reported as investments. The Organization maintains its cash, cash equivalents and certain investments in bank deposit accounts, which at times exceed federally insured limits. The Organization has not experienced any losses in such accounts and believes it is not exposed to any significant credit risk on cash.

**Pledges receivable:** Unconditional promises to give that are expected to be collected within one year are recorded at net realizable value. Unconditional promises to give that are expected to be collected in future years are recorded at the present value of their estimated future cash flows, discounted using risk-free interest rates applicable to the years in which the promises are received. Amortization of such discounts is included in contribution support. Conditional promises to give are not included as support until the conditions are substantially met. There were no conditional promises to give as of June 30, 2011.

**Investments:** Investments in equity securities with readily determinable fair values and all investments in debt securities are reported at fair value with gains and losses on investments purchased and sold and unrealized holding gains and losses included in the statement of activities. Other investments are carried at the lower of aggregate cost or market. Realized and unrealized gains/losses on permanently restricted investments are recorded as unrestricted unless specified as restricted by the donor.

**Property and equipment:** Expenditures for the acquisition of property and equipment are capitalized at cost; donated equipment is carried at the estimated fair value as of the date received as a donation. Depreciation is provided over the estimated useful lives of the assets (generally 8 to 20 years for buildings and improvements and 5 to 8 years for vehicles and equipment) on the straight-line method. Depreciation on leasehold improvements is limited to the lease term or life of the asset, whichever is less.

Construction-in-progress generally represents land improvements or facilities construction and is not depreciated until such improvements are completed.

The depreciation expense on assets acquired under capital leases is included with depreciation expense on owned assets.

**Impairment of long-lived assets:** The Association reviews long-lived assets for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Recoverability of assets to be held and used is measured by a comparison of the carrying amount of an asset to future undiscounted cash flows expected to be generated by the asset. If such assets are impaired, the impairment is recognized as the amount by which the carrying amount exceeds the estimated future undiscounted cash flows. Assets to be sold are reported at the lower of the carrying amount or the fair value less costs to sell.

**Split-interest agreements:** The Association receives certain support in the form of contributions that are shared with other beneficiaries designated by the donors. These contributions are split-interest agreements and consist of beneficial interest in perpetual and total return trusts, charitable remainder trusts and charitable gift annuities. Assets and revenues are recognized at estimated fair value for the Association's beneficial interest in trusts when it is notified of the trust's existence and for charitable remainder trusts and charitable gift annuities in the period in which the contract is executed.

Changes in the value of split-interest agreements are recognized in the statement of activities for changes in the discounted cash flows or fair value of the assets held in trust, amortization of the discount associated with certain contributions receivable and revaluations of expected future payments to other beneficiaries, based on changes in life expectancy, and other assumptions.

**Notes to Consolidated Financial Statements**

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**Note 1. Nature of Activities and Summary of Significant Accounting Policies (Continued)**

**Recent accounting standards applicable to fair value measurements:** In January 2010, the Financial Accounting Standards Board (FASB) issued an amendment, "Fair Value Measurements and Disclosures – Improving Disclosures about Fair Value Measurements" (ASU 2010-06), which requires new disclosures about transfers of financial assets and liabilities between levels 1 and 2. This amendment also clarifies that fair value measurements disclosures are required for each class of financial assets and liabilities, and disclosures about inputs and valuation techniques are required for both Level 2 and Level 3 measurements. It further clarifies that the reconciliation of Level 3 measurements should separately present purchases, sales, issuances and settlements instead of netting these changes. With respect to matters other than reconciliation of Level 3 measurements, the amendment was effective and adopted by the Organization on July 1, 2010, with no significant effect on fair value measurements disclosures. The guidance related to reconciliation of Level 3 measurements is effective for the Organization for the year ending June 30, 2012, and has not yet been adopted. The adoption of the remaining guidance is not expected to significantly affect the Organization's fair value measurements disclosures.

In May 2011, the FASB issued amendments, "Amendments to Achieve Common Fair Value Measurements and Disclosure Requirements in U.S. GAAP and IFRSs" (ASU 2011-04). ASU 2011-04 amended Accounting Standards Codification (ASC) 820, Fair Value Measurements and Disclosures, to converge the fair value measurement guidance in GAAP and International Financial Reporting Standards (IFRSs). Some of the amendments clarify the application of existing fair value measurement requirements, while other amendments change a particular principle in ASC 820. In addition, ASU 2011-04 requires additional fair value disclosures. The amendments are to be applied prospectively and are effective for the Organization for the year ending June 30, 2013. The Organization is currently evaluating the effect that the provisions of ASU 2011-04 will have on its financial statements.

**Income taxes:** The Association, Foundation and Youth Farm, Inc. are exempt from income taxes under Section 501(c)(3) of the Internal Revenue Code, except for income unrelated to their charitable purposes.

Management has evaluated the Organization's tax positions and concluded that the Organization had maintained its tax exempt status and had taken no uncertain tax positions that require adjustment to the financial statements to comply with the provisions of this guidance. With few exceptions, the Organization is no longer subject to income tax examinations by the U.S. federal tax authorities for years before 2007.

**Functional allocation of expenses:** The costs of providing the various programs, fundraising and other activities have been summarized on a functional basis in the statement of functional expenses. Accordingly, certain costs have been allocated among the programs and supporting services benefited.

**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 Organization's financial statements for the year ended June 30, 2010, from which the summarized information was derived.

**Use of estimates in the preparation of financial statements:** 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 amounts reported in the financial statements and accompanying notes. Actual results could differ from those estimates.

**The Children's Home Association of Illinois,  
Children's Home Foundation and Youth Farm, Inc.**

**Notes to Consolidated Financial Statements**

**Note 2. Pledges Receivable and Program Campaigns**

Pledges receivable as of June 30, 2011 and 2010, consisted of the following unconditional promises to give:

	2011	2010
Program campaign pledges, temporarily restricted	\$ 4,650	\$ 24,449
Less unamortized discount (discount rate 5.0%)	-	-
Discounted program campaign pledges receivable	<u>\$ 4,650</u>	<u>\$ 24,449</u>
Discounted program campaign pledges due in future years as follows:		
Less than one year	<u>\$ 4,650</u>	<u>\$ 24,449</u>

The Foundation is nearing completion of its major gifts initiative campaign entitled the "Scott's Prairie Campaign" designed to enhance the educational, therapeutic and recreational resources available to children at the Organization's farm property, Scott's Prairie. The campaign goal target was to raise \$1,000,000. Pledges obtained from such campaign totaled approximately \$880,000 through June 30, 2011.

**Note 3. Investments**

The fair value of investments as of June 30, 2011 and 2010, is summarized by concentration as follows:

	2011	2010
Equities:		
Mutual funds	\$ 8,720,124	\$ 4,448,588
Common stocks	-	2,542,731
	<u>\$ 8,720,124</u>	<u>\$ 6,991,319</u>

Investment income, including gains and losses on investments purchased and sold as well as held during the years ended June 30, 2011 and 2010, is summarized by concentration as follows:

	2011	2010
Interest and dividends	\$ 181,640	\$ 126,032
Distributions from perpetual trusts	640,081	698,008
Net appreciation in fair value investments	1,220,188	597,688
	<u>\$ 2,041,909</u>	<u>\$ 1,421,728</u>

**The Children's Home Association of Illinois,  
Children's Home Foundation and Youth Farm, Inc.**

**Notes to Consolidated Financial Statements**

**Note 4. Property and Equipment**

Property and equipment as of June 30, 2011 and 2010, consisted of the following:

	2011	2010
Land	\$ 763,658	\$ 763,658
Buildings	2,465,667	2,423,029
Land improvements, buildings improvements and leasehold improvements	5,395,387	5,171,025
Furniture and equipment, including assets acquired under capital leases 2011 and 2010 \$185,497	1,478,796	1,742,125
Vehicles	302,340	162,724
Construction-in-progress	2,247	43,492
	<u>10,408,095</u>	<u>10,306,053</u>
Less accumulated depreciation, including amounts applicable to assets acquired under capital leases 2011 \$106,882; 2010 \$69,853	5,788,328	5,749,499
	<u>\$ 4,619,767</u>	<u>\$ 4,556,554</u>

The Association owns or has perpetual use of the facilities located at 2130 N. Knoxville, Peoria, Illinois. The historical cost of the owned land and buildings, acquired prior to 1900, has not been maintained. Under present policy, the depreciable portion of these assets would be fully depreciated prior to 1950. The associated land would be carried at the pre-1900 historical cost presently deemed by the Association to be a nominal value. As a result of the above, the historical cost of the original facilities, whether owned or perpetually used, is not reflected in these financial statements.

**Note 5. Beneficial Interest in Trusts**

The Association is the beneficiary of certain perpetual trusts held by third party trustees. Under the terms of the trusts, which were obtained in previous years from various donors, the Association has the irrevocable right to receive net investment income earned (excluding realized and unrealized gains/losses) on the trust's assets in perpetuity, but never receives the assets held in trust. Distributions of income earned on the trust's assets are received by the Association on an annual basis and are reported as investment income that increases unrestricted net assets. Such distributions received from these trusts were approximately \$13,000 and \$11,000 for the years ended June 30, 2011 and 2010, respectively.

The Association has a beneficial interest in two perpetual trusts that allow for the payment of income up to specified criteria. Total amounts received from these beneficial interests were approximately \$627,000 and \$687,000 for the years ended June 30, 2011 and 2010, respectively.

The beneficial interests in perpetual trusts as of June 30, 2011 and 2010, were determined as follows:

	2011	2010
Beneficial interest times fair value of assets held in trust	\$ 10,636,000	\$ 9,367,000
Discounted cash-flow analysis	269,000	269,000
	<u>\$ 10,905,000</u>	<u>\$ 9,636,000</u>

The Organization is the beneficiary of 25 percent of the remainder interest of a Unitrust. The trust assets will be distributed upon the death of the last living beneficiary. At June 30, 2011 and 2010, the value of the remainder interest was \$147,000 and \$107,000, respectively.

**The Children's Home Association of Illinois,  
Children's Home Foundation and Youth Farm, Inc.**

**Notes to Consolidated Financial Statements**

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**Note 6. 401(k) Pension Plan**

The Association has a defined contribution 401(k) pension plan (the Plan) covering all employees who are age 21 or older and meet other eligibility requirements as defined by the Plan. The Association was required to match 100 percent of a participant's pretax contributions up to a maximum of 5 percent of a participant's eligible compensation as defined by the Plan. Effective July 2009, the Plan was amended such that matching contributions by the Association were revised from being required for each payroll period to being discretionary in an amount equal to the percentage declared by the Association's Board of Directors for each plan year. Effective October 2009, the Association's Board of Directors declared a matching contribution to match 100 percent of a participant's pretax contributions, up to a maximum of 4 percent of a participant's eligible compensation, for the remainder of the year ended June 30, 2010. The same matching contribution percentage was also declared for the year ended June 30, 2011 and year ending June 30, 2012. The Plan also includes a supplemental contribution component whereby the Association may make additional discretionary contributions to the Plan. The Association's contribution expense under the plan totaled approximately \$247,000 and \$200,000 for the years ended June 30, 2011 and 2010, respectively.

**Note 7. Line-of-Credit**

The Association has a revolving line-of-credit arrangement with a national bank totaling \$2,500,000 that expires on January 30, 2012, or such later date as may be designated by written notice from the bank. Advances under this agreement bear interest at a variable rate based upon One Month LIBOR plus 1.75 percent, are due on January 30, 2012, and are collateralized by investments. Interest is payable monthly. There were no outstanding borrowings under the line-of-credit as of June 30, 2011.

**Note 8. Temporarily and Permanently Restricted Net Assets and Assets Released from Donor Restrictions**

Temporarily restricted net assets as of June 30, 2011 and 2010, were available for the following purposes:

	<u>2011</u>	<u>2010</u>
Time restriction:		
Beneficial interest in charitable remainder trust	\$ 147,000	\$ 107,000
Purpose restriction:		
Leaders of Tomorrow Program	588,011	651,958
Scott's Prairie	282,540	307,419
Other	85,216	85,398
	<u>\$ 1,102,767</u>	<u>\$ 1,151,775</u>

Temporarily restricted net assets were released from donor restrictions during the years ended June 30, 2011 and 2010, by incurring expenses or applicable property and equipment additions satisfying the restricted purposes specified by donors, as follows:

**The Children's Home Association of Illinois,  
Children's Home Foundation and Youth Farm, Inc.**

**Notes to Consolidated Financial Statements**

**Note 8. Temporarily and Permanently Restricted Net Assets and Assets Released from Donor Restrictions (Continued)**

	2011	2010
Purpose restrictions accomplished:		
Leaders of Tomorrow Program	\$ 66,372	\$ 74,397
Scott's Prairie	32,139	55,966
Other	181	-
	<u>\$ 98,692</u>	<u>\$ 130,363</u>

Permanently restricted net assets as of June 30, 2011 and 2010, consisted of the following:

	2011	2010
Investments, program services	\$ 100,000	\$ 100,000
Investments, scholarship funds	76,512	65,412
Beneficial interest in perpetual trusts	10,905,000	9,636,000
Other	50,000	50,000
	<u>\$ 11,131,512</u>	<u>\$ 9,851,412</u>

The scholarship funds, as noted above, are to provide support for youth who are involved with the juvenile justice system. Investment earnings are available for program service activities. Principal is to be maintained in perpetuity.

**Note 9. Support from Major Funding Sources**

The Association receives a substantial amount of its revenue from the Illinois Department of Children and Family Services (DCFS) and the Illinois Department of Human Services (DHS). Total revenue for the year ended June 30, 2011, from DCFS and DHS totaled approximately \$10,977,000 and \$2,441,000, respectively. Accounts receivable from DCFS and DHS as of June 30, 2011, totaled approximately \$366,000 and \$877,000, respectively. For the year ended June 30, 2010, total revenue from DCFS and DHS totaled approximately \$10,777,000 and \$3,166,000, respectively. Accounts receivable from DCFS and DHS as of June 30, 2010, totaled approximately \$429,000 and \$1,125,000, respectively.

**Note 10. Self-Insurance**

The Association self-insures a portion of the risks associated with medical expenses incurred by its employees and their dependents. Under the terms of the self-insurance agreement, the Association is responsible for the first \$65,000 of qualifying medical expenses per person on an annual basis which is limited in total by an aggregate excess loss provision which is calculated as 95 percent of the first monthly aggregate deductible multiplied by 12. The insurance contract with a life insurance company limits the insurance company's coverage to a \$1,000,000 maximum annual reimbursement per person and specifies that individual claims in excess of \$65,000 on an annual basis and total claims exceeding the aggregate excess will be fully covered by the insurance carrier, subject to the maximum annual reimbursement provision.

Health insurance and medical claims expense totaled approximately \$1,394,000 and \$1,433,000 for the years ended June 30, 2011 and 2010, respectively.

**The Children's Home Association of Illinois,  
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**Notes to Consolidated Financial Statements**

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**Note 11. Lease Commitments and Total Rental Expense**

At June 30, 2011, certain office equipment with a depreciated cost net book value of \$78,615 has been acquired under capital leases which contain purchase options under which the Association may purchase the equipment for \$1 each at end of the respective lease. The equipment and the related liability under the capital leases were recorded at the present value of the future payments due under the leases, as determined using an interest rate equal to the prime rate in effect at the time of purchase (5.00 percent - 7.75 percent). The related liability under the capital leases, with a June 30, 2011, balance of \$85,616, net of unamortized discount of \$12,169, is due in monthly installments of approximately \$4,164, including interest, to September 2013.

The following is a schedule by years of the future minimum lease payments under the capital leases together with the present value of the net minimum lease payments as of June 30, 2011:

	Amount
Year Ending June 30,	
2012	\$ 49,968
2013	49,968
2014	8,547
Total minimum lease payments	108,483
Less amount representing interest and discount	22,867
Present value of net minimum lease payments	<u>\$ 85,616</u>

The Association leases certain real estate, equipment and computer software under various operating lease agreements, which generally require monthly rental payments.

The total approximate minimum rental commitment at June 30, 2011, is due as follows:

	Amount
Year Ending June 30,	
2012	\$ 124,000
2013	123,000
2014	91,000
2015	5,000
2016	3,000
	<u>\$ 346,000</u>

Total rental expense for the years ended June 30, 2011 and 2010, was approximately \$157,000 and \$320,000, respectively.

## Notes to Consolidated Financial Statements

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### Note 12. Fair Value Measurements

The framework applicable to certain FASB issued authoritative guidance regarding fair value measurements 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 are described below:

Level 1. Inputs to the valuation methodology are unadjusted quoted prices for identical assets or liabilities in active markets that the Organization has the ability to access.

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 during the year ended June 30, 2011.

*Mutual funds:* Valued at the net asset value (NAV) of shares held by the Organization at year end.

*Common and preferred stocks:* Valued at the closing price reported on the active market on which the individual securities are traded.

*U.S. government and other fixed income securities:* Valued at the closing price reported in the active market in which the security is traded.

*Beneficial interest in perpetual trusts:* Valued based on the beneficial interest times the fair value of the underlying assets held in trust by a third-party trustee at year end or at a discounted cash flow analysis of the estimated future income derived from the Organization's interest in the trust with the discount rate used based on the estimated return market participants would expect on similar assets. For the portion valued based on the beneficial interest times the fair value of the underlying assets held in trust by a third-party trustee, the underlying assets are primarily comprised of mutual funds, common stocks and debt securities which methodologies are described above. For the portion valued using a discounted cash flow analysis, estimated future income derived was based on an average of annual income distributions from the trusts received for the previous 10 years, distributed for 30 years in the future and using an estimated discount rate of 4.75 percent as of June 30, 2011.

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**Notes to Consolidated Financial Statements**

**Note 12. Fair Value Measurements (Continued)**

*Beneficial interest in charitable remainder trust:* Valued based on the beneficial interest times the fair value of the underlying assets held in trust by a third-party trustee at year end and discounted using the remaining life expectancy tables of the living beneficiaries and a discount rate of 7 percent as of June 30, 2011.

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 the Organization 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, the Organization's assets reported at fair value as of June 30, 2011 and 2010:

	Assets at Fair Value as of June 30,			
	Level 1	Level 2	Level 3	Total
	2011			
Investments:				
Mutual funds				
Taxable short-term bond	\$ 3,446,347	\$ -	\$ -	\$ 3,446,347
Large cap value	1,833,460	-	-	1,833,460
Large cap growth	1,392,289	-	-	1,392,289
International large cap core	913,059	-	-	913,059
Emerging market value	314,037	-	-	314,037
Mid cap core	184,857	-	-	184,857
Mid cap value	178,647	-	-	178,647
Small cap value	164,566	-	-	164,566
Small cap growth	135,452	-	-	135,452
Large cap core	126,235	-	-	126,235
Taxable core bond	31,175	-	-	31,175
Beneficial interest in perpetual trusts:				
Beneficial interest times fair value of assets held in trust (1)	-	10,636,000	-	10,636,000
Discounted cash flow analysis	-	-	269,000	269,000
Beneficial interest in charitable remainder trust	-	-	147,000	147,000
Total assets at fair value	<u>\$ 8,720,124</u>	<u>\$ 10,636,000</u>	<u>\$ 416,000</u>	<u>\$ 19,772,124</u>

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**Notes to Consolidated Financial Statements**

**Note 12. Fair Value Measurements (Continued)**

	Assets at Fair Value as of June 30,			
	Level 1	Level 2	Level 3	Total
	2010			
Investments:				
Mutual funds				
Intermediate-term bond	\$ 2,544,329	\$ -	\$ -	\$ 2,544,329
International	988,161	-	-	988,161
Small cap growth	807,142	-	-	807,142
Large cap growth	92,628	-	-	92,628
Other	16,328	-	-	16,328
Common stocks				
Energy	378,953	-	-	378,953
Materials	49,640	-	-	49,640
Industrials	335,288	-	-	335,288
Consumer	413,036	-	-	413,036
Healthcare	250,879	-	-	250,879
Financials	648,784	-	-	648,784
Information technology	194,421	-	-	194,421
Telecommunication services	124,707	-	-	124,707
Utilities	147,023	-	-	147,023
Beneficial interest in perpetual trusts:				
Beneficial interest times fair value of assets held in trust (1)	-	9,367,000	-	9,367,000
Discounted cash flow analysis	-	-	269,000	269,000
Beneficial interest in charitable remainder trust	-	-	107,000	107,000
Total assets at fair value	<u>\$ 6,991,319</u>	<u>\$ 9,367,000</u>	<u>\$ 376,000</u>	<u>\$ 16,734,319</u>

(1) A substantial portion of the Organization's beneficial interest in perpetual trusts is valued based on the Organization's proportionate share (beneficial interest) of the underlying net assets held in trust with a third-party national financial institution trustee. The following table presents a summary of the concentration of the Organization's beneficial interest in the fair value of those underlying assets held in trust as of June 30, 2011 and 2010:

	2011	2010
Mutual funds	\$ 7,956,762	\$ 3,922,925
Common stocks	2,665,219	3,583,342
U.S. government fixed-income securities	2,672	1,006,879
Other fixed-income securities	-	830,049
Other	11,347	23,805
	<u>\$ 10,636,000</u>	<u>\$ 9,367,000</u>

**The Children's Home Association of Illinois,  
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**Notes to Consolidated Financial Statements**

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**Note 12. Fair Value Measurements (Continued)**

The following table sets forth a summary of changes in the fair value of the Organization's Level 3 assets for the year ended June 30, 2011:

	<u>Level 3 Assets</u>
Balance, beginning of year	\$ 376,000
Change in value of beneficial interest in charitable remainder trust	40,000
Balance, end of year	<u>\$ 416,000</u>

**Note 13. Commitments and Contingencies**

*Commitments*

In order to complete the construction-in-progress (see Note 4), the Organization is committed to vendors for construction and related costs not yet incurred of approximately \$1,000 as of June 30, 2011. These commitments are expected to be paid from available liquid assets.

*Contingencies*

The Organization is involved in certain legal proceedings and/or litigation arising in the ordinary course of its activities. In the opinion of management, the outcome of such proceedings and/or litigation is not expected to have a significant effect on the Organization's financial position, results of activities or cash flows.

**Note 14. Subsequent Events**

The Organization has evaluated all subsequent events through September 12, 2011, which is the date the financial statements were available to be issued.