



INDEPENDENT AUDITORS' REPORT

The Board of Directors
Sheridan House Family Ministries, Inc.
Sheridan House, Inc.
Davie, Florida

We have audited the accompanying combining statement of financial position of Sheridan House Family Ministries, Inc. and Sheridan House, Inc. ("the Organizations") as of December 31, 2010, and the related combining statements of activities, cash flows and functional expenses for the year then ended. These combining financial statements are the responsibility of the Organizations' management. Our responsibility is to express an opinion on these combining financial statements based on our audit.

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

In our opinion, the combining financial statements referred to above present fairly, in all material respects, the combining financial position of Sheridan House Family Ministries, Inc. and Sheridan House, Inc. as of December 31, 2010, the combining changes in their net assets and their combining cash flows for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

Batts Morrison Wales & Lee, P.A.

BATTS MORRISON WALES & LEE, P.A.

Orlando, Florida
May 11, 2011

CERTIFIED PUBLIC ACCOUNTANTS

SHERIDAN HOUSE FAMILY MINISTRIES, INC.
SHERIDAN HOUSE, INC.
COMBINING STATEMENT OF FINANCIAL POSITION
December 31, 2010

ASSETS

	Sheridan House Family Ministries, Inc.	Sheridan House, Inc.	Eliminations	Combined Total
ASSETS				
Cash and cash equivalents	\$ 589,825	\$ 197,441	\$ —	\$ 787,266
Cash and investments restricted to endowments	—	537,060	—	537,060
Due from affiliate	—	1,017,155	(1,017,155)	—
Beneficial interest in a trust	—	471,000	—	471,000
Other assets	156,897	45,850	—	202,747
Property and equipment, net	396,483	18,224,039	—	18,620,522
Total assets	\$ 1,143,205	\$ 20,492,545	\$ (1,017,155)	\$ 20,618,595

LIABILITIES AND NET ASSETS

LIABILITIES

Accounts payable and accrued expenses	\$ —	\$ 10,000	\$ —	\$ 10,000
Due to affiliate	1,017,155	—	(1,017,155)	—
Notes payable	—	6,859,032	—	6,859,032
Total liabilities	1,017,155	6,869,032	(1,017,155)	6,869,032

NET ASSETS

Unrestricted	126,050	12,615,453	—	12,741,503
Temporarily restricted	—	471,000	—	471,000
Permanently restricted	—	537,060	—	537,060
Total net assets	126,050	13,623,513	—	13,749,563
Total liabilities and net assets	\$ 1,143,205	\$ 20,492,545	\$ (1,017,155)	\$ 20,618,595

The Accompanying Notes are an Integral
Part of These Combining Financial Statements

SHERIDAN HOUSE FAMILY MINISTRIES, INC.
SHERIDAN HOUSE, INC.
COMBINING STATEMENT OF ACTIVITIES
For The Year Ended December 31, 2010

	Sheridan House Family Ministries, Inc.	Sheridan House, Inc.	Eliminations	Combined Total
CHANGE IN UNRESTRICTED NET ASSETS				
Revenue and support:				
Special events revenue	\$ 772,518	\$ —	\$ —	\$ 772,518
Less: Direct special events expenses	(110,559)	—	—	(110,559)
Net special events revenue	661,959	—	—	661,959
Resource sales	31,639	—	—	31,639
Less: Cost of resources sold	(13,116)	—	—	(13,116)
Net resource sales	18,523	—	—	18,523
Subtotal	680,482	—	—	680,482
Contributions	1,895,794	500	—	1,896,294
Other revenue	321,518	597,113	(437,000)	481,631
Total unrestricted revenue and support	2,897,794	597,613	(437,000)	3,058,407
Net assets released from time and use restrictions	251,177	—	—	251,177
Total unrestricted revenue and support and net assets released from time and use restrictions	3,148,971	597,613	(437,000)	3,309,584
Expenses:				
Program activities:				
Homes - residential care services	1,620,846	538,928	(289,000)	1,870,774
Community services	593,798	119,789	(69,000)	644,587
Counseling services	249,193	31,924	(20,000)	261,117
Total program activities	2,463,837	690,641	(378,000)	2,776,478
Supporting activities:				
Fundraising	385,224	73,416	(34,000)	424,640
Management and general	370,216	96,331	(25,000)	441,547
Total supporting activities	755,440	169,747	(59,000)	866,187
Total expenses	3,219,277	860,388	(437,000)	3,642,665
Change in unrestricted net assets	(70,306)	(262,775)	—	(333,081)
CHANGE IN TEMPORARILY RESTRICTED NET ASSETS				
Contributions	251,177	—	—	251,177
Change in beneficial interest in a trust	—	(9,000)	—	(9,000)
Net assets released from time and use restrictions	(251,177)	—	—	(251,177)
Change in temporarily restricted net assets	—	(9,000)	—	(9,000)
CHANGE IN NET ASSETS	(70,306)	(271,775)	—	(342,081)
NET ASSETS - Beginning of year	196,356	13,895,288	—	14,091,644
NET ASSETS - End of year	\$ 126,050	\$ 13,623,513	\$ —	\$ 13,749,563

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Part of These Combining Financial Statements

SHERIDAN HOUSE FAMILY MINISTRIES, INC.
SHERIDAN HOUSE, INC.
COMBINING STATEMENT OF CASH FLOWS
For The Year Ended December 31, 2010

	Sheridan House Family Ministries, Inc.	Sheridan House, Inc.	Eliminations	Combined Total
OPERATING CASH FLOWS				
Change in net assets	\$ (70,306)	\$ (271,775)	\$ —	\$ (342,081)
Adjustments to reconcile change in net assets to net operating cash flows:				
Depreciation and amortization	163,283	374,271	—	537,554
Change in accounts payable and accrued expenses	(301)	(2,584)	—	(2,885)
Changes in other operating assets	47,037	(2,166)	—	44,871
Net operating cash flows	139,713	97,746	—	237,459
INVESTING CASH FLOWS				
Change in cash and investments restricted to endowments	—	(62,203)	—	(62,203)
Change in due to/from affiliate	2,452	(2,452)	—	—
Purchases of and improvements to property and equipment	—	(26,000)	—	(26,000)
Net investing cash flows	2,452	(90,655)	—	(88,203)
FINANCING CASH FLOWS				
Borrowings	—	26,000	—	26,000
Repayments	—	(81,476)	—	(81,476)
Net financing cash flows	—	(55,476)	—	(55,476)
NET CHANGE IN CASH AND CASH EQUIVALENTS	142,165	(48,385)	—	93,780
CASH AND CASH EQUIVALENTS - Beginning of year	447,660	245,826	—	693,486
CASH AND CASH EQUIVALENTS - End of year	\$ 589,825	\$ 197,441	\$ —	\$ 787,266

SUPPLEMENTAL DISCLOSURE:

Interest paid amounted to approximately \$482,000 during 2010.

The Accompanying Notes are an Integral
Part of These Combining Financial Statements

SHERIDAN HOUSE FAMILY MINISTRIES, INC.
STATEMENT OF FUNCTIONAL EXPENSES
For The Year Ended December 31, 2010

	Program Activities				Supporting Activities			Total Expenses
	Homes - Residential Care Services	Community Services	Counseling Services	Total	Fundraising and Special Events	Management and General	Total	
Salaries	\$ 723,855	\$ 193,597	\$ 83,698	\$ 1,001,150	\$ 166,253	\$ 146,950	\$ 313,203	\$ 1,314,353
Employee benefits	70,399	19,034	6,898	96,331	22,721	21,540	44,261	140,592
Payroll taxes	50,664	13,549	5,858	70,071	11,636	10,285	21,921	91,992
Total personnel-related expenses	844,918	226,180	96,454	1,167,552	200,610	178,775	379,385	1,546,937
Occupancy:								
Rental of operating facilities	289,000	69,000	20,000	378,000	34,000	25,000	59,000	437,000
Depreciation	97,156	21,776	6,400	125,332	9,951	16,000	25,951	151,283
Insurance	72,607	15,996	6,841	95,444	13,588	17,796	31,384	126,828
Maintenance	55,621	5,392	4,301	65,314	1,539	21,448	22,987	88,301
Utilities	62,046	5,844	2,624	70,514	5,019	6,353	11,372	81,886
Telephone	16,339	2,608	1,544	20,491	3,504	1,936	5,440	25,931
Food and household costs	59,318	—	—	59,318	—	1,578	1,578	60,896
Education and recreation	20,890	—	—	20,890	—	—	—	20,890
Local transportation	20,292	1,327	555	22,174	2,070	3,943	6,013	28,187
Interest	—	—	—	—	—	230	230	230
Property taxes	—	—	—	—	—	1,561	1,561	1,561
Technology costs	38,963	10,416	4,503	53,882	8,945	7,907	16,852	70,734
Development	—	—	—	—	83,667	—	83,667	83,667
Special projects	6,522	—	—	6,522	16,201	13,425	29,626	36,148
Office expense	702	—	—	702	117	34,879	34,996	35,698
Professional fees	35,122	4,416	3,109	42,647	3,792	37,892	41,684	84,331
Social services	1,350	230,843	102,862	335,055	2,221	1,493	3,714	338,769
Subtotal	1,620,846	593,798	249,193	2,463,837	385,224	370,216	755,440	3,219,277
Direct special events expenses	—	—	—	—	110,559	—	110,559	110,559
Cost of resources sold	—	13,116	—	13,116	—	—	—	13,116
Total expenses	\$ 1,620,846	\$ 606,914	\$ 249,193	\$ 2,476,953	\$ 495,783	\$ 370,216	\$ 865,999	\$ 3,342,952

The Accompanying Notes are an Integral
Part of These Combining Financial Statements

SHERIDAN HOUSE, INC.
STATEMENT OF FUNCTIONAL EXPENSES
For The Year Ended December 31, 2010

	Program Activities				Supporting Activities			Total Expenses
	Homes - Residential Care Services	Community Services	Counseling Services	Total	Fundraising and Special Events	Management and General	Total	
Occupancy:								
Depreciation	\$ 224,916	\$ 49,993	\$ 13,323	\$ 288,232	\$ 29,948	\$ 39,974	\$ 69,922	\$ 358,154
Insurance	1,540	342	91	1,973	205	274	479	2,452
Interest	302,351	67,204	17,910	387,465	40,258	53,731	93,989	481,454
Office expense	—	—	—	—	1,658	553	2,211	2,211
Amortization	10,121	2,250	600	12,971	1,347	1,799	3,146	16,117
Total expenses	\$ 538,928	\$ 119,789	\$ 31,924	\$ 690,641	\$ 73,416	\$ 96,331	\$ 169,747	\$ 860,388

The Accompanying Notes are an Integral
Part of These Combining Financial Statements

SHERIDAN HOUSE FAMILY MINISTRIES, INC.
SHERIDAN HOUSE, INC.
NOTES TO COMBINING FINANCIAL STATEMENTS
December 31, 2010

NOTE A – NATURE OF ACTIVITIES

Sheridan House Family Ministries, Inc. ("SHFM") was established in 2007 as a Florida not-for-profit corporation, to carry out the program activities and other operations historically performed by Sheridan House, Inc. ("SH"), including providing residential care and spiritual and educational guidance based upon Biblical principles to middle school-aged boys and girls. In addition, SHFM provides food, household goods, automobiles, financial assistance, seminars, and counseling to needy families located primarily in Broward County, Florida. SHFM (and formerly SH) is supported primarily through contributions from the local community and through special events. SH was established in 1968 as a Florida-based not-for-profit corporation and owns real property to be used for the benefit of children and families. The accompanying combining financial statements include the accounts of SH and SHFM, which operate under common management.

SHFM is a member of the Evangelical Council for Financial Accountability, which was established to encourage the highest standards of financial excellence and integrity for its members.

Collectively, SH and SHFM are referred to herein as "the Organizations."

NOTE B – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Restricted and unrestricted revenue and support

Contributions received are recorded as unrestricted, temporarily restricted or permanently restricted support, depending on the existence and/or nature of any donor restrictions. When a 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 combining statement of activities as "net assets released from time and use restrictions."

Cash and cash equivalents

The Organizations consider investment instruments purchased or donated with original maturities of three months or less to be cash equivalents.

Cash and investments restricted to endowments

Cash and investments restricted to endowments consist of cash and investments in equity securities which are stated at estimated fair value and are restricted pursuant to the endowment agreements to which they relate.

Split-interest agreement

For split-interest arrangements in which the Organizations are not the trustee or custodian, the Organizations recognize an asset for the estimated present value of the Organizations' benefits under the arrangements. For all irrevocable split-interest arrangements, temporarily restricted contribution revenue is recognized for the estimated present value of the Organizations' benefits under the arrangements in the year the arrangements are established or in the year in which the Organizations are provided sufficient information about the existence and nature of the arrangements. Periodic adjustments are made for changes in estimated present values using mortality tables and discount rates of approximately 6.5%.

Property and equipment

Property and equipment are stated at cost, if purchased, or estimated fair value on the date of donation, if donated. Depreciation is computed using the straight-line method over the estimated useful lives of the respective assets.

SHERIDAN HOUSE FAMILY MINISTRIES, INC.
SHERIDAN HOUSE, INC.
NOTES TO COMBINING FINANCIAL STATEMENTS
December 31, 2010

NOTE B – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Income taxes

The Organizations are exempt from federal income tax as organizations described in Section 501(c)(3) of the Internal Revenue Code and from state income tax pursuant to Florida law. The Organizations are further classified as public charities and not private foundations for federal tax purposes. The Organizations have not incurred unrelated business income taxes. As a result, no income tax provision or liability has been provided for in the accompanying combining financial statements. The Organizations have not taken any material uncertain tax positions for which the associated tax benefits may not be recognized under accounting principles generally accepted in the United States of America.

Use of estimates

Management uses estimates and assumptions in preparing combining financial statements. Those estimates and assumptions affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities, and reported revenues and expenses. Significant estimates used in preparing these combining financial statements include those related to the value of the beneficial interest in a trust and the useful lives of property and equipment. Actual results could differ from the estimates.

Subsequent events

The Organizations have evaluated for possible financial reporting and disclosure subsequent events through May 11, 2011, the date as of which the combining financial statements were available to be issued.

NOTE C – CONCENTRATIONS

The Organizations maintain their cash and cash equivalents in deposit accounts and money market funds which may not be federally insured, may exceed federally insured limits, or may be insured by an entity other than an agency of the federal government. The Organizations have not experienced any losses in such accounts, and believe they are not exposed to any significant credit risk related to cash and cash equivalents.

SH's term debt is held by a single financial institution.

NOTE D – FAIR VALUE MEASUREMENTS

U.S. generally accepted accounting principles ("GAAP") define fair value as the price that the Organizations would receive upon selling an investment in an orderly transaction to an independent buyer in the principal or most advantageous market of the investment. GAAP establishes a hierarchy to maximize the use of observable market data and minimize the use of unobservable inputs, and to establish classification of fair value measurements for disclosure purposes. 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). Following is a description of each of the three levels of input within the fair value hierarchy:

Level 1 – quoted prices in active markets for identical assets

Level 2 – other significant observable inputs (such as quoted prices for similar investments)

Level 3 – significant unobservable inputs

A financial instrument's level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement.

SHERIDAN HOUSE FAMILY MINISTRIES, INC.
SHERIDAN HOUSE, INC.
NOTES TO COMBINING FINANCIAL STATEMENTS
December 31, 2010

NOTE D – FAIR VALUE MEASUREMENTS (Continued)

Estimated fair value of certain SH assets measured on a recurring basis at December 31, 2010 are as follows:

	<u>Estimated Fair Value</u>	<u>Estimated Fair Value Measurements at Reporting Date Using</u>		
		<u>Quoted Prices In Active Markets for Identical Assets (Level 1)</u>	<u>Other Significant Observable Inputs (Level 2)</u>	<u>Significant Unobservable Inputs (Level 3)</u>
Mutual funds - restricted	\$ 149,340	\$ 149,340	\$ —	\$ —
Beneficial interest in a trust	<u>471,000</u>	<u>—</u>	<u>471,000</u>	<u>—</u>
Total	<u>\$ 620,340</u>	<u>\$ 149,340</u>	<u>\$ 471,000</u>	<u>\$ —</u>

Financial assets with estimated values determined using Level 1 inputs are based on unadjusted quoted market prices within active markets. Estimated fair value for the beneficial interest in a trust is determined by calculating the present value of the future distributions expected to be received, using published life expectancy tables and a 6.5% discount rate.

NOTE E – PROPERTY AND EQUIPMENT

Property and equipment consisted of the following:

<u>Category</u>	<u>SHFM</u>	<u>SH</u>
Land and land improvements	\$ —	\$10,812,294
Buildings	—	9,366,012
Furniture and equipment	829,356	—
Construction in progress	<u>—</u>	<u>133,068</u>
Total property and equipment	829,356	20,311,374
Less: Accumulated depreciation	<u>(432,873)</u>	<u>(2,087,335)</u>
Net property and equipment	<u>\$ 396,483</u>	<u>\$18,224,039</u>

Depreciation expense was \$509,437 for 2010.

The reported value of land and buildings includes property leased to an unrelated third party (“the lessee”) which is carried on SH’s financial statements at approximately \$1,047,000.