

CHILD & FAMILY RESOURCES, INC. AND SUBSIDIARY

Audited Consolidated Financial Statements  
and Supplementary Information

For the years ended June 30, 2013 and 2012

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CHILD & FAMILY RESOURCES, INC. AND SUBSIDIARY

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To the Boards of Directors  
Child & Family Resources, Inc.  
and Subsidiary

*Report on the Financial Statements*

We have audited the accompanying consolidated financial statements of Child & Family Resources, Inc. and Subsidiary (nonprofit organizations), which comprise the consolidated statements of financial position for the years ended June 30, 2013 and 2012, and the related consolidated statements of activities, and cash flows for the years then ended, and the related notes to the consolidated financial statements. These consolidated financial statements are the responsibility of the Organization's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We did not audit the financial statements of Tucson Nursery Schools and Child Care Centers, Inc., a subsidiary, which statements reflect total assets of \$540,881 and \$546,730 as of June 30, 2013 and 2012, respectively and total support and revenue of \$490,859 and \$468,414, for the years then ended. Those statements were audited by other auditors whose report has been furnished to us, and our opinion, insofar as it relates to the amounts included for Tucson Nursery Schools and Child Care Centers, Inc. is based solely on the report of the other auditors.

*Management's Responsibility for the Financial Statements*

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

*Auditor's Responsibility*

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits 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 audits to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

*Opinion*

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Child & Family Resources, Inc. and Subsidiary as of June 30, 2013 and 2012, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

*Other Matters*

*Other Information*

Our audit was conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The supplementary information is presented for purposes of additional analysis and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the consolidated financial statements. The information has been subjected to the auditing procedures applied in the audit of the consolidated financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the consolidated financial statements or to the consolidated 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 presented fairly, in all material respects in relation to the consolidated financial statements as a whole.

*Other Reporting Required by Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated October 30, 2013, on our consideration of Child & Family Resources, Inc. and Subsidiary's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on 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.

LUDWIG KLEWER & CO. P.C.

October 30, 2013

CHILD & FAMILY RESOURCES, INC. AND SUBSIDIARY  
CONSOLIDATED STATEMENTS OF FINANCIAL POSITION  
June 30, 2013 and 2012

-  
ASSETS

	2013	2012
Current assets:		
Cash and cash equivalents	\$ 156,407	\$ 90,159
Grants and accounts receivable	3,091,205	3,020,502
Investments	539,512	478,121
Prepaid expenses	192,847	28,682
Total current assets	3,979,971	3,617,464
Property and equipment, net	3,095,285	3,157,499
Other assets	46,907	46,815
Total assets	\$ 7,122,163	\$ 6,821,778

LIABILITIES AND NET ASSETS

Current liabilities:		
Accounts payable	\$ 977,805	\$ 1,086,448
Accrued expenses	605,591	641,438
Lines of credit	949,970	668,831
Capital leases payable, current portion	17,004	18,934
Long-term debt, current portion	83,036	83,196
Total current liabilities	2,633,406	2,498,847
Capital leases payable, non-current portion	20,205	39,385
Long-term debt, non-current portion	679,333	746,988
Total liabilities	3,332,944	3,285,220
Net assets:		
Unrestricted:		
General operating	1,349,176	1,178,935
Investment in property and equipment	2,295,707	2,268,996
Total unrestricted net assets	3,644,883	3,447,931
Temporarily restricted	144,336	88,627
Total net assets	3,789,219	3,536,558
Total liabilities and net assets	\$ 7,122,163	\$ 6,821,778

See independent auditors' report and accompanying notes.

## CHILD &amp; FAMILY RESOURCES, INC. AND SUBSIDIARY

## CONSOLIDATED STATEMENT OF ACTIVITIES

For the year ended June 30, 2013

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Total</u>
Support and revenue:			
Contracts with governmental agencies	\$ 18,153,149	\$ -	\$ 18,153,149
Parent fees	520,581	-	520,581
Other grants	338,570	69,009	407,579
Contributions	255,393	70,000	325,393
Investment income, net	42,537	-	42,537
Other revenue	29,467	-	29,467
Special events, net	20,771	-	20,771
United Way	20,657	-	20,657
In-kind contributions	8,643	-	8,643
Net assets released from restrictions:			
Satisfaction of grant restrictions	83,300	(83,300)	-
Total support and revenue	<u>19,473,068</u>	<u>55,709</u>	<u>19,528,777</u>
Expenses:			
Program services	17,228,684	-	17,228,684
General and administration	1,792,991	-	1,792,991
Fund-raising	254,441	-	254,441
Total expenses	<u>19,276,116</u>	<u>-</u>	<u>19,276,116</u>
Change in net assets	196,952	55,709	252,661
Net assets, beginning of year	<u>3,447,931</u>	<u>88,627</u>	<u>3,536,558</u>
Net assets, end of year	<u>\$ 3,644,883</u>	<u>\$ 144,336</u>	<u>\$ 3,789,219</u>

See independent auditors' report and accompanying notes.

## CHILD &amp; FAMILY RESOURCES, INC. AND SUBSIDIARY

## CONSOLIDATED STATEMENT OF ACTIVITIES

For the year ended June 30, 2012

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Total</u>
Support and revenue:			
Contracts with governmental agencies	\$ 17,799,039	\$ -	\$ 17,799,039
Other grants	474,638	55,000	529,638
Parent fees	491,565	-	491,565
Contributions	353,874	20,000	373,874
United Way	85,790	-	85,790
In-kind contributions	54,254	-	54,254
Special events, net	30,095	-	30,095
Other revenue	30,448	-	30,448
Investment loss, net	(11,732)	-	(11,732)
Net assets released from restrictions:			
Satisfaction of grant restrictions	66,391	(66,391)	-
Total support and revenue	<u>19,374,362</u>	<u>8,609</u>	<u>19,382,971</u>
Expenses:			
Program services	17,267,292	-	17,267,292
General and administration	1,844,314	-	1,844,314
Fund-raising	323,865	-	323,865
Total expenses	<u>19,435,471</u>	<u>-</u>	<u>19,435,471</u>
Change in net assets	(61,109)	8,609	(52,500)
Net assets, beginning of year	<u>3,509,040</u>	<u>80,018</u>	<u>3,589,058</u>
Net assets, end of year	<u>\$ 3,447,931</u>	<u>\$ 88,627</u>	<u>\$ 3,536,558</u>

See independent auditors' report and accompanying notes.



## CHILD &amp; FAMILY RESOURCES, INC. AND SUBSIDIARY

CONSOLIDATED STATEMENTS OF CASH FLOWS  
For the years ended June 30, 2013 and 2012

	<u>2013</u>	<u>2012</u>
Cash flows from operating activities:		
Change in net assets	\$ 252,661	\$ (52,500)
Adjustments to reconcile change in net assets to net cash provided by (used in) operating activities:		
Depreciation	201,110	177,426
Donated property and equipment	(4,782)	(6,991)
Net realized and unrealized (gain) loss on investments	(30,883)	23,414
Reinvested interest and dividend income	(11,734)	(17,561)
Changes in operating assets and liabilities:		
Grants and accounts receivable	(70,703)	(613,400)
Prepaid expenses	(164,165)	6,785
Other assets	(92)	3,136
Accounts payable	(108,643)	134,349
Accrued expenses	(35,847)	30,787
Total adjustments	<u>(225,739)</u>	<u>(262,055)</u>
Net cash provided by (used in) operating activities	26,922	(314,555)
Cash flows from investing activities:		
Purchases of property and equipment	(134,114)	(107,449)
Purchases of investments	(140,279)	(92,753)
Proceeds from sale of investments	121,505	212,305
Net cash (used in) provided by investing activities	<u>(152,888)</u>	12,103
Cash flows from financing activities:		
Borrowings on lines of credit	281,139	411,220
Principal payments on capital leases payable	(21,110)	(15,770)
Principal payments on long-term debt	(67,815)	(79,116)
Net cash provided by financing activities	<u>192,214</u>	<u>316,334</u>
Net change in cash and cash equivalents	66,248	13,882
Cash and cash equivalents, beginning of year	90,159	76,277
Cash and cash equivalents, end of year	<u>\$ 156,407</u>	<u>\$ 90,159</u>
Supplemental disclosure of cash flow information:		
Cash paid for interest	<u>\$ 88,679</u>	<u>\$ 82,718</u>
Supplemental schedule of noncash investing and financing activities:		
Donated property and equipment	<u>\$ 4,782</u>	<u>\$ 6,991</u>
Reinvested interest and dividend income	<u>\$ 11,734</u>	<u>\$ 17,561</u>
Purchase of equipment with capital lease payable	<u>\$ -</u>	<u>\$ 43,700</u>
Long-term debt refinanced	<u>\$ 383,898</u>	<u>\$ -</u>

See independent auditors' report and accompanying notes.

CHILD & FAMILY RESOURCES, INC. AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

For the years ending June 30, 2013 and 2012

1. Organization

Child & Family Resources, Inc. (CFR) was incorporated in Arizona in August 1970 as a private nonprofit, community-based organization whose goal is to promote the strength and stability of families, to afford children and youth a supportive environment and to maximize the child's physical, intellectual and emotional development. CFR documents community needs, develops innovative solutions and programs to resolve unmet needs and implements programs where there are no available resources. The mission of CFR is to enhance the quality of life for children and their families. CFR operates primarily in southern Arizona with offices in Tucson, Phoenix, Sierra Vista, Douglas, Nogales, Yuma, Safford, Kingman, Casa Grande, Bullhead City and Apache Junction.

In March 2006, CFR entered an affiliation agreement with Tucson Nursery Schools and Child Care Centers, Inc. (TNS), which provides low cost child care for low-income working families, in order to further CFR's mission. TNS is a corporation organized to operate exclusively for education, scientific, literary and charitable purposes. The agreement required each organization to complete certain administrative and legal steps in order to complete the formal affiliation. In July 2006, CFR completed all steps of the agreement and became the sole member of TNS.

2. Summary of Significant Accounting Policies

Basis of Presentation

The consolidated financial statements include the accounts of Child & Family Resources, Inc. and its commonly controlled subsidiary, Tucson Nursery Schools and Child Care Centers, Inc. (collectively referred to as the Organization). All intercompany accounts and transactions have been eliminated in consolidation.

Financial Statement Presentation

The Organization reports information regarding its financial position and activities according to the three classes of net assets (unrestricted, temporarily restricted, and permanently restricted net assets) based upon the existence or absence of donor-imposed restrictions.

- Unrestricted net assets – Net assets that are not subject to donor-imposed stipulations. A portion of the unrestricted net assets have been designated by the board of directors as expended for property and equipment to reflect the total carrying value after accumulated depreciation of all property and equipment, net of directly related liabilities. Remaining unrestricted net assets are available for general operations of the Organization.
- Temporarily restricted net assets – Net assets that are subject to donor-imposed stipulations that may or will be met either by actions of the Organization and/or the passage of time. When a restriction expires, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the consolidated statement of activities as net assets released from restrictions. Temporarily restricted net assets are \$144,336 and \$88,627 at June 30, 2013 and 2012.
- Permanently restricted net assets – Net assets that are subject to donor-imposed stipulations that they be maintained permanently by the Organization. Generally, the donors of these assets permit the Organization to use all or part of the income earned on any related investments for general or specific purposes. There are no permanently restricted net assets at June 30, 2013 and 2012.

Public Support and Revenue

Grants and other contributions of cash and other assets are reported 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 a purpose restriction is accomplished, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the consolidated statement of activities as net assets released from restrictions.

See independent auditors' report.

CHILD & FAMILY RESOURCES, INC. AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

For the years ending June 30, 2013 and 2012

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2. Summary of Significant Accounting Policies, Continued

Donated Services, Materials and Facilities

Donated materials and facilities are valued at their fair market value. Donated services are recognized in the consolidated financial statements at their fair market value if the services require specialized skills, are provided by individuals possessing those skills, and would typically need to be purchased if not donated.

Although the Organization utilizes the services of many outside volunteers, the fair value of these services is not recognized in the accompanying consolidated financial statements since they do not meet the criteria for recognition under accounting principles generally accepted in the United States of America.

Use of Estimates

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

Functional Allocation of Expenses

The costs of providing the various programs have been summarized on a functional basis in the consolidated statement of activities. Expenses that can be identified with a specific program are allocated directly according to their natural classification. Other expenses that are common to several functions are allocated by other reasonable methods.

Advertising

The Organization uses advertising to promote its programs. The costs of advertising are expensed as incurred. For the years ended June 30, 2013 and 2012, advertising costs totaled \$91,974 and \$44,906, respectively.

Income Taxes

CFR and TNS are nonprofit organizations under Internal Revenue Code Section 501(c)(3), and as such are exempt from both Federal and Arizona income taxes. Therefore, no provision has been made for income taxes in the accompanying consolidated financial statements.

CFR and TNS are also public charities under the Internal Revenue Code Sections 509(a)(1). This classification allows for donations to both organizations to be deductible as charitable contributions on income tax returns.

Both Organizations have a policy to disclose or recognize income tax positions based on management's estimate of whether it is reasonably possible or probable, respectively, that a liability has been incurred for unrecognized income tax positions. As of June 30, 2013, management is not aware of any uncertain tax positions that are potentially material. The Organizations' federal Form 990, Return of Organization Exempt from Income Tax, for fiscal years 2010, 2011 and 2012 are subject to examination by the IRS, generally for three years after they were filed.

Cash and Cash Equivalents

The Organization considers all highly-liquid investments available for current use with an initial maturity of three months or less to be cash equivalents.

See independent auditors' report.

CHILD & FAMILY RESOURCES, INC. AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

For the years ending June 30, 2013 and 2012

2. Summary of Significant Accounting Policies, Continued

Grants and Accounts Receivable

The Organization grants unsecured credit under contracts primarily with governmental agencies in Arizona. The Organization considers accounts over 30 days past due to be delinquent. At June 30, 2013 and 2012, the balance of grants and accounts receivable included \$355,223 and \$198,800, respectively, of amounts over 30 days past due. Based on historical collections, grants and accounts receivable are considered fully collectible by management; therefore, no allowance for doubtful accounts has been provided.

Property and Equipment

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

The cost of repairs and maintenance is charged to expense in the year incurred. Expenditures that increase the useful lives of the assets are capitalized and depreciated. The Organization's policy is to capitalize expenditures for property and equipment that exceed \$1,000. Property and equipment is depreciated using the straight-line method over the following estimated useful lives of the assets:

Buildings and improvements	10-40 years
Furniture, fixtures and equipment	3-15 years
Leasehold improvements	10 years
Vehicles	5 years

Investments

In accordance with accounting principles generally accepted in the United States of America applicable to nonprofit organizations, investments in marketable securities with readily determinable fair values and all investments in debt securities are valued at their fair values in the consolidated statement of financial position. Unrealized gains and losses are included with the change in net assets.

Reclassifications

Certain items from 2012 have been reclassified to conform to the 2013 financial statement presentation.

3. Concentration of Risk

As of June 30, 2013, the Federal Deposit Insurance Corporation (FDIC) insures cash accounts at banks up to \$250,000 per institution and no longer provides unlimited coverage for non interest-bearing accounts. As of June 30, 2012, non interest-bearing accounts were fully-insured. Investments held by other institutions are covered up to \$500,000 under insurance provided by the Securities Investor Protection Corporation (SIPC). However, SIPC does not protect against losses in market value. The Organization's investments are on deposit at a brokerage institution that provides additional insurance above SIPC limits. At June 30, 2013 and 2012, the Organization had \$59,911 and \$-0- of cash and investments in excess of FDIC and SIPC limitations.

See independent auditors' report.

## CHILD &amp; FAMILY RESOURCES, INC. AND SUBSIDIARY

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

For the years ending June 30, 2013 and 2012

4. Grants and Accounts Receivable

Grants and accounts receivable consist of the following at June 30,:

	<u>2013</u>	<u>2012</u>
Arizona Department of Economic Security	\$ 1,343,921	\$ 994,412
Arizona First Things First	1,063,177	1,443,683
Arizona Department of Education	411,240	411,009
Other receivables	251,908	700
Other governmental agencies	20,959	170,698
Total grants and accounts receivable	<u>\$ 3,091,205</u>	<u>\$ 3,020,502</u>

5. Investments

Investments are stated at fair value and consist of the following at June 30,:

	<u>2013</u>	<u>2012</u>
Stocks	\$ 178,375	\$ 153,971
Bonds	198,236	182,453
Mutual funds	162,901	141,697
Total investments	<u>\$ 539,512</u>	<u>\$ 478,121</u>

The amortized cost and estimated fair value of bonds held to maturity at June 30, 2013, by contractual maturity, are shown below. Expected maturities will differ from contractual maturities because borrowers may have the right to call or prepay obligations with or without prepayment penalties.

	<u>Amortized Cost</u>	<u>Estimated Fair Value</u>
Due in one year or less	\$ 46,311	\$ 47,309
Due after one year but less than five years	98,033	100,948
Due after five years but less than ten years	48,018	49,979
	<u>\$ 192,362</u>	<u>\$ 198,236</u>

Investment income (loss) consists of the following for the years ended June 30,:

	<u>2013</u>	<u>2012</u>
Interest and dividend income	\$ 17,663	\$ 17,561
Realized and unrealized gain (loss), net	30,883	(23,414)
Investment fees	(6,009)	(5,879)
Total investment income (loss), net	<u>\$ 42,537</u>	<u>\$ (11,732)</u>

See independent auditors' report.

CHILD & FAMILY RESOURCES, INC. AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

For the years ending June 30, 2013 and 2012

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6. Fair Value Measurements

The Financial Accounting Standards Board has established 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 are described as follows:

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.

If the asset or liability has a specified (contractual) term, the Level 2 input must be observable for substantially the full term of the asset or liability.

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

The asset 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 June 30, 2013 and 2012.

- *Stocks, bonds*: Valued at fair value based on national trade listing.
- *Mutual funds*: Valued at the net asset value ("NAV") of shares held by the Organization at year-end.

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.

See independent auditors' report.

## CHILD &amp; FAMILY RESOURCES, INC. AND SUBSIDIARY

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

For the years ending June 30, 2013 and 2012

6. Fair Value Measurements, Continued

Fair values of Level 1 investment assets measured on a recurring basis at June 30, are:

	2013	2012
Stocks	\$ 178,375	\$ 153,971
Bonds	198,236	182,453
Mutual funds:		
Small blend	63,847	51,515
Diversified emerging markets	61,914	59,839
Foreign large growth	37,140	30,343
Total investments	<u>\$ 539,512</u>	<u>\$ 478,121</u>

7. Property and Equipment

Property and equipment consists of the following at June 30,:

	2013	2012
Land	\$ 455,464	\$ 455,464
Buildings and improvements	3,642,339	3,621,702
Furniture, fixtures and equipment	1,612,596	1,504,172
Leasehold improvements	194,801	192,252
Vehicles	25,617	25,617
Construction in progress	900	6,175
Total property and equipment, at cost or donated value	5,931,717	5,805,382
Less accumulated depreciation	<u>(2,836,432)</u>	<u>(2,647,883)</u>
Property and equipment, net	<u>\$ 3,095,285</u>	<u>\$ 3,157,499</u>

8. Lines of Credit

CFR has a revolving line of credit with National Bank of Arizona, which matures during December 2013. Interest is payable monthly at the prime rate of 3.25% plus 1.0% at June 30, 2013. The interest rate at June 30, 2012 was payable at the prime rate of 3.25%. If CFR defaults on any terms of the note, the interest rate increases to the prime rate plus 18%. The line of credit is primarily collateralized by a deed of trust. The outstanding balance at June 30, 2013 and 2012 was \$607,888 and \$647,888, respectively. Under the terms of this agreement, CFR is required to maintain a debt service coverage ratio of at least 1.25:1. At June 30, 2013, CFR was in compliance with the debt service coverage ratio.

CFR has a portfolio loan account with Morgan Stanley Bank, N.A., which is collateralized by investments held by Morgan Stanley. Interest is payable monthly at 4.00%. The outstanding balance at June 30, 2013 and 2012 was \$320,000 and \$-0-, respectively.

TNS has a \$25,000 line of credit with Compass Bank. This line of credit requires interest payments on the outstanding balance at a variable annual interest rate which was 5.75% at June 30, 2013 and 2012. The outstanding balance at June 30, 2013 and 2012 was \$22,082 and \$20,943, respectively.

See independent auditors' report.

## CHILD &amp; FAMILY RESOURCES, INC. AND SUBSIDIARY

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

For the years ending June 30, 2013 and 2012

9. Capital Leases Payable

CFR is obligated under capital leases. At June 30, 2013 and 2012, the total cost of office equipment under these leases is \$76,296 and \$76,296 and accumulated depreciation is \$40,470 and \$20,865, respectively.

The capital leases payable consists of the following at June 30,:

	<u>2013</u>	<u>2012</u>
CFR capital lease, Bank of the West, \$929 per month including interest through July 2016; collateralized by office furniture.	\$ 28,787	\$ 37,230
CFR capital lease, Insight Global Finance, \$1,105 per month including interest through March 2014; collateralized by computer equipment.	<u>8,422</u>	<u>21,089</u>
Net minimum lease payments	37,209	58,319
Capital leases payable, current portion	<u>(17,004)</u>	<u>(18,934)</u>
Capital leases payable, non-current portion	<u>\$ 20,205</u>	<u>\$ 39,385</u>

The future maximum lease payments due under these capital leases are:

2014	\$ 19,987
2015	11,147
2016	11,147
2017	<u>929</u>
Total lease payments	43,210
Less imputed interest	<u>(6,001)</u>
Net minimum lease payments	<u>\$ 37,209</u>

10. Long-Term Debt

Long-term debt consists of the following at June 30,:

	<u>2013</u>	<u>2012</u>
CFR mortgage payable to a financial institution, due in monthly installments of \$3,053 through February 2013, including interest at 5.75%, collateralized by a deed of trust. The mortgage was refinanced during August 2012 when the maturity was extended to August 2027 and the interest rate was changed to 4.99%.	\$ 368,094	\$ 374,901
CFR note payable to a financial corporation, due in monthly installments of \$1,338 through March 2016, including interest at 5.767%, collateralized by buildings and accounts receivable.	146,916	194,611

See independent auditors' report.



## CHILD &amp; FAMILY RESOURCES, INC. AND SUBSIDIARY

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

For the years ending June 30, 2013 and 2012

10. Long-Term Debt, Continued

	<u>2013</u>	<u>2012</u>
TNS note payable, due in monthly installments of \$2,375 with a final balloon payment of \$212,824 due March 2016, including interest of 6.267%, collateralized by deed of trust.	247,359	260,672
Total long-term debt	762,369	830,184
Less current portion	(83,036)	(83,196)
Non-current portion	<u>\$ 679,333</u>	<u>\$ 746,988</u>

Principal maturities of long-term debt are as follows at June 30,:

2014	\$ 83,036
2015	87,869
2016	282,438
2017	22,658
2018	23,104
Thereafter	263,264
	<u>\$ 762,369</u>

11. Contracts with Governmental Agencies

Revenue from contracts with governmental agencies consists of the following for the years ended June 30,:

	<u>2013</u>	<u>2012</u>
Arizona Department of Economic Security	\$ 6,264,757	\$ 5,936,550
Arizona Department of Education	4,499,272	4,154,672
Arizona First Things First	2,933,099	3,612,904
United Way First Things First	2,854,735	3,454,944
Arizona Department of Health Services	878,564	1,734
U.S. Department of Health and Human Services	536,187	480,751
Other government contracts	126,087	101,377
Pima County	60,448	56,107
Total contracts with governmental agencies	<u>\$ 18,153,149</u>	<u>\$ 17,799,039</u>

12. Special Events

Special event activities consist of the following for the years ended June 30,:

	<u>2013</u>	<u>2012</u>
Revenue	\$ 44,845	\$ 59,292
Expense	(24,074)	(29,197)
Net revenue	<u>\$ 20,771</u>	<u>\$ 30,095</u>

See independent auditors' report.

CHILD & FAMILY RESOURCES, INC. AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

For the years ending June 30, 2013 and 2012

13. Operating Leases

CFR leases office equipment and facilities for their programs and administrative offices under non-cancelable, long-term operating leases with various expirations through February 2017. Three of the leases contain a one-year renewal. Five of the leases allow cancellation with 30 to 90 days notice if CFR can prove loss of grant funding for programs operated out of those locations. TNS leases a copier under an operating lease with an expiration date of July 20, 2014. During the years ended June 30, 2013 and 2012, total rent and usage expense under these agreements was \$421,076 and \$375,694, respectively.

Future minimum lease payments under these leases are as follows at June 30,:

2014	\$	373,045
2015		273,465
2016		243,186
2017		77,595
2018		3,129
	\$	<u>970,420</u>

CFR has two sublease agreements to rent out a portion of its facilities. Total sublease income during the years ended June 30, 2013 and 2012 was \$27,430 and \$18,539, respectively.

14. Contingent Liabilities

The Organization participates in a number of federal, state and local grant programs. A significant reduction in the level of this support, if it were to occur, would have a material effect on the programs and activities of the Organization. The governmental funding is subject to compliance audits by the respective governmental agencies. Assessments from such audits, if any, are recorded when the amounts of such assessments are reasonably determinable. Certain of the governmental contracts are also subject to termination for convenience clauses. The Organization has received no such termination notices.

15. Post-Employment Benefits

In September 2004, CFR entered into an agreement whereby it would pay certain post-employment benefits to a former officer for recognition of years of service. A medical benefit in the amount of \$3,000 per year is due until the death of the former officer.

16. Retirement Plan

CFR has a 401(k) and defined contribution pension plan. The plan allows eligible employees to contribute a portion of their wages on a pretax basis into the plan. The plan also allows for discretionary matching and/or profit sharing contributions by CFR. CFR did not contribute to the plan during the years ended June 30, 2013 and 2012.

17. Subsequent Events

The Organization was unaware of any subsequent events as of October 30, 2013, the date the consolidated financial statements were available to be issued.

See independent auditors' report.

SUPPLEMENTARY INFORMATION

CHILD & FAMILY RESOURCES, INC. AND SUBSIDIARY  
CONSOLIDATING STATEMENT OF FINANCIAL POSITION  
June 30, 2013

ASSETS

	Child & Family Resources, Inc.	Tucson Nursery Schools, Inc.	Eliminating Entries	Total
Current assets:				
Cash and cash equivalents	\$ 123,249	\$ 33,158	\$ -	\$ 156,407
Grants and accounts receivable	3,051,944	39,261	-	3,091,205
Investments	539,512	-	-	539,512
Note receivable, related party	105,000	-	(105,000)	-
Prepaid expenses	192,847	-	-	192,847
Total current assets	4,012,552	72,419	(105,000)	3,979,971
Property and equipment, net	2,628,079	467,206	-	3,095,285
Other assets	45,651	1,256	-	46,907
Total assets	<u>\$ 6,686,282</u>	<u>\$ 540,881</u>	<u>\$ (105,000)</u>	<u>\$ 7,122,163</u>

LIABILITIES AND NET ASSETS

Current liabilities:				
Accounts payable	\$ 971,621	\$ 6,184	\$ -	\$ 977,805
Accrued expenses	592,366	13,225	-	605,591
Note payable, related party	-	105,000	(105,000)	-
Lines of credit	927,888	22,082	-	949,970
Capital leases payable, current portion	17,004	-	-	17,004
Long-term debt, current portion	69,627	13,409	-	83,036
Total current liabilities	2,578,506	159,900	(105,000)	2,633,406
Capital leases payable, non-current portion	20,205	-	-	20,205
Long-term debt, non-current portion	445,383	233,950	-	679,333
Total liabilities	3,044,094	393,850	(105,000)	3,332,944
Net assets:				
Unrestricted:				
General operating	1,421,992	(72,816)	-	1,349,176
Investment in property and equipment	2,075,860	219,847	-	2,295,707
Total unrestricted net assets	3,497,852	147,031	-	3,644,883
Temporarily restricted	144,336	-	-	144,336
Total net assets	3,642,188	147,031	-	3,789,219
Total liabilities and net assets	<u>\$ 6,686,282</u>	<u>\$ 540,881</u>	<u>\$ (105,000)</u>	<u>\$ 7,122,163</u>

Supplementary Information.  
See independent auditors' report.

CHILD & FAMILY RESOURCES, INC. AND SUBSIDIARY  
CONSOLIDATING STATEMENT OF FINANCIAL POSITION  
June 30, 2012

ASSETS

	Child & Family Resources, Inc.	Tucson Nursery Schools, Inc.	Eliminating Entries	Total
Current assets:				
Cash and cash equivalents	\$ 71,132	\$ 19,027	\$ -	\$ 90,159
Grants and accounts receivable	2,985,762	34,740	-	3,020,502
Investments	478,121	-	-	478,121
Note receivable, related party	108,000	-	(108,000)	-
Prepaid expenses	20,364	8,318	-	28,682
Total current assets	3,663,379	62,085	(108,000)	3,617,464
Property and equipment, net	2,674,768	482,731	-	3,157,499
Other assets	44,901	1,914	-	46,815
Total assets	<u>\$ 6,383,048</u>	<u>\$ 546,730</u>	<u>\$ (108,000)</u>	<u>\$ 6,821,778</u>

LIABILITIES AND NET ASSETS

Current liabilities:				
Accounts payable	\$ 1,079,148	\$ 7,300	\$ -	\$ 1,086,448
Accrued expenses	626,111	15,327	-	641,438
Note payable, related party	-	108,000	(108,000)	-
Lines of credit	647,888	20,943	-	668,831
Capital leases payable, current portion	18,934	-	-	18,934
Long-term debt, current portion	70,599	12,597	-	83,196
Total current liabilities	2,442,680	164,167	(108,000)	2,498,847
Capital leases payable, non-current portion	39,385	-	-	39,385
Long-term debt, non-current portion	498,913	248,075	-	746,988
Total liabilities	2,980,978	412,242	(108,000)	3,285,220
Net assets:				
Unrestricted:				
General operating	1,286,506	(107,571)	-	1,178,935
Investment in property and equipment	2,046,937	222,059	-	2,268,996
Total unrestricted net assets	3,333,443	114,488	-	3,447,931
Temporarily restricted	68,627	20,000	-	88,627
Total net assets	3,402,070	134,488	-	3,536,558
Total liabilities and net assets	<u>\$ 6,383,048</u>	<u>\$ 546,730</u>	<u>\$ (108,000)</u>	<u>\$ 6,821,778</u>

Supplementary Information.  
See independent auditors' report.

CHILD & FAMILY RESOURCES, INC. AND SUBSIDIARY

CONSOLIDATING STATEMENT OF ACTIVITIES  
For the year ended June 30, 2013

	Child & Family Resources, Inc.		Tucson Nursery Schools, Inc.		Eliminating Entries	Total
	Unrestricted	Temporarily Restricted	Unrestricted	Temporarily Restricted		
Support and revenue:						
Contracts with governmental agencies	\$ 17,869,624	\$ -	\$ 17,869,624	\$ -	\$ -	\$ 18,153,149
Parent fees	404,125	-	404,125	-	-	520,581
Other grants	285,800	69,009	354,809	-	-	407,579
Contributions	231,704	70,000	301,704	23,689	-	325,393
Investment income, net	42,537	-	42,537	-	-	42,537
Other revenue	27,430	-	27,430	2,037	-	29,467
Special events, net	20,771	-	20,771	-	-	20,771
United Way	13,057	-	13,057	7,600	-	20,657
In-kind contributions	3,861	-	3,861	4,782	-	8,643
Net assets released from restrictions:						
Satisfaction of grant restrictions	63,300	(63,300)	-	(20,000)	-	-
Total support and revenue	18,962,209	75,709	19,037,918	(20,000)	-	19,528,777
Expenses:						
Program services	16,802,419	-	16,802,419	-	-	17,228,684
General and administration	1,740,940	-	1,740,940	52,051	-	1,792,991
Fund-raising	254,441	-	254,441	-	-	254,441
Total expenses	18,797,800	-	18,797,800	478,316	-	19,276,116
Change in net assets	164,409	75,709	240,118	(20,000)	-	252,661
Net assets, beginning of year	3,333,443	68,627	3,402,070	114,488	-	3,536,558
Net assets, end of year	\$ 3,497,852	\$ 144,336	\$ 3,642,188	\$ 147,031	\$ -	\$ 3,789,219

Supplementary Information.  
See independent auditors' report.

CHILD & FAMILY RESOURCES, INC. AND SUBSIDIARY

CONSOLIDATING STATEMENT OF ACTIVITIES  
For the year ended June 30, 2012

	Child & Family Resources, Inc.		Tucson Nursery Schools, Inc.		Eliminating Entries	Total
	Unrestricted	Temporarily Restricted	Unrestricted	Temporarily Restricted		
Support and revenue:						
Contracts with governmental agencies	\$ 17,574,404	\$ -	\$ 17,574,404	\$ -	\$ -	\$ 17,799,039
Other grants	444,330	55,000	499,330	-	-	529,638
Parent fees	361,472	-	361,472	-	-	491,565
Contributions	313,639	-	313,639	20,000	-	373,874
United Way	69,638	-	69,638	16,152	-	85,790
In-kind contributions	47,263	-	47,263	6,991	-	54,254
Special events, net	30,095	-	30,095	-	-	30,095
Other revenue	30,448	-	30,448	-	-	30,448
Investment loss, net	(11,732)	-	(11,732)	-	-	(11,732)
Net assets released from restrictions:						
Satisfaction of grant restrictions	66,391	(66,391)	-	-	-	-
Total support and revenue	18,925,948	(11,391)	18,914,557	20,000	-	19,382,971
Expenses:						
Program services	16,859,435	-	16,859,435	-	-	17,267,292
General and administration	1,793,890	-	1,793,890	-	-	1,844,314
Fund-raising	323,865	-	323,865	-	-	323,865
Total expenses	18,977,190	-	18,977,190	-	-	19,435,471
Change in net assets	(51,242)	(11,391)	(62,633)	20,000	-	(52,500)
Net assets, beginning of year	3,384,685	80,018	3,464,703	-	-	3,589,058
Net assets, end of year	\$ 3,333,443	\$ 68,627	\$ 3,402,070	\$ 20,000	\$ -	\$ 3,536,558

Supplementary Information.  
See independent auditors' report.

CHILD & FAMILY RESOURCES, INC. AND SUBSIDIARY  
 CONSOLIDATED SCHEDULE OF FUNCTIONAL EXPENSES  
 For the year ended June 30, 2013

	Childcare and Education Services	Family and Community Services	Child Care	Nutrition	Total Program Services	General and Administrative	Fund-raising	Total
Personnel costs	\$ 2,230,391	\$ 5,701,567	\$ 224,962	\$ 22,249	\$ 8,179,169	\$ 751,999	\$ 129,440	\$ 9,060,518
Payments to subrecipients and providers	3,834,097	-	-	-	3,834,097	-	-	3,834,097
Employee related costs	431,301	1,117,599	37,064	3,666	1,589,630	101,755	21,948	1,713,333
Materials and supplies	787,273	220,431	40,775	23	1,048,502	82,388	23,451	1,154,341
Other operating expenses	136,127	423,177	49,294	4,844	613,442	367,131	47,745	1,028,318
Professional and outside services	97,198	534,344	3,982	394	635,918	205,554	4,400	845,872
Occupancy costs	156,338	319,148	32,067	3,172	510,725	188,450	21,935	721,110
Travel and related	131,978	457,958	2,138	211	592,285	29,333	3,100	624,718
Equipment	45,987	168,994	1,296	128	216,405	66,471	2,422	285,298
Assistance to individuals	550	7,961	-	-	8,511	-	-	8,511
Total expenses	\$ 7,851,240	\$ 8,951,179	\$ 391,578	\$ 34,687	\$ 17,228,684	\$ 1,792,991	\$ 254,441	\$ 19,276,116

Supplementary Information.  
 See independent auditors' report.



CHILD & FAMILY RESOURCES, INC. AND SUBSIDIARY

CONSOLIDATED SCHEDULE OF FUNCTIONAL EXPENSES  
For the year ended June 30, 2012

	Childcare and Education Services	Family and Community Services	Child Care	Nutrition	Total Program Services	General and Administrative	Fund-raising	Total
Personnel costs	\$ 2,118,680	\$ 5,160,912	\$ 216,893	\$ 21,451	\$ 7,517,936	\$ 713,334	\$ 122,784	\$ 8,354,054
Payments to subrecipients and providers	3,550,604	776,315	-	-	4,326,919	-	-	4,326,919
Materials and supplies	1,496,169	296,758	37,398	32	1,830,357	121,050	37,329	1,988,736
Employee related costs	428,306	1,066,171	35,507	3,512	1,533,496	124,770	28,729	1,686,995
Other operating expenses	143,676	146,744	43,771	4,319	338,510	395,129	82,037	815,676
Professional and outside services	55,238	485,113	4,383	434	545,168	182,313	17,220	744,701
Occupancy costs	141,972	267,351	33,627	3,325	446,275	213,501	29,858	689,634
Travel and related	120,627	420,433	1,712	169	542,941	22,922	4,762	570,625
Equipment	28,092	145,897	1,205	119	175,313	70,727	1,146	247,186
Assistance to individuals	-	10,377	-	-	10,377	568	-	10,945
Total expenses	\$ 8,083,364	\$ 8,776,071	\$ 374,496	\$ 33,361	\$ 17,267,292	\$ 1,844,314	\$ 323,865	\$ 19,435,471

Supplementary Information.  
See independent auditors' report.

