

CHILD & FAMILY RESOURCES, INC. AND SUBSIDIARY

Audited Consolidated Financial Statements
and Supplementary Information

For the years ended June 30, 2015 and 2014

CHILD & FAMILY RESOURCES, INC. AND SUBSIDIARY

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LUDWIG KLEWER & CO. PLLC

Certified Public Accountants & Consultants

INDEPENDENT AUDITORS' REPORT

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

Report on the Consolidated 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, 2015 and 2014, and the related consolidated statements of activities and cash flows for the years then ended, and the related notes to the consolidated financial statements. We did not audit the financial statements of Tucson Nursery Schools and Child Care Centers, Inc., a subsidiary, which statements reflect total assets of \$471,792 and \$513,110 as of June 30, 2015 and 2014, respectively, and total support and revenue of \$476,033 and \$531,959, for the years then ended, respectively. 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 Consolidated 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, 2015 and 2014, 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.

Chris Wm. Ludwig, CPA Julie S. Klewer, CPA, MBA Eric S. Rudner, CPA

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INDEPENDENT AUDITORS' REPORT, Continued

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 consolidated 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 December 30, 2015, on our consideration of Child & Family Resources, Inc.'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.

LUOWAN KLEWER & CO. PLLC

December 30, 2015

CHILD & FAMILY RESOURCES, INC. AND SUBSIDIARY
CONSOLIDATED STATEMENTS OF FINANCIAL POSITION
June 30, 2015 and 2014

ASSETS

	2015	2014
Current assets:		
Cash and cash equivalents	\$ 705,272	\$ 402,694
Grants and accounts receivable	3,156,565	3,337,128
Investments	607,374	608,382
Prepaid expenses	54,756	66,243
Total current assets	4,523,967	4,414,447
Property and equipment, net	2,831,757	2,933,515
Other assets	48,151	47,734
Total assets	\$ 7,403,875	\$ 7,395,696

LIABILITIES AND NET ASSETS

Current liabilities:		
Accounts payable	\$ 1,001,913	\$ 986,297
Accrued expenses	672,120	702,292
Lines of credit	918,723	964,324
Capital lease payable, current portion	10,478	9,482
Deferred grant obligation, current portion	24,144	24,144
Note payable, current portion	27,011	25,761
Total current liabilities	2,654,389	2,712,300
Capital lease payable, non-current portion	305	10,783
Deferred grant obligation, non-current portion	169,009	193,153
Note payable, non-current portion	403,996	430,703
Total liabilities	3,227,699	3,346,939
Net assets:		
Unrestricted:		
General operating	1,655,879	1,770,038
Investment in property and equipment	2,389,967	2,239,489
Total unrestricted net assets	4,045,846	4,009,527
Temporarily restricted	130,330	39,230
Total net assets	4,176,176	4,048,757
Total liabilities and net assets	\$ 7,403,875	\$ 7,395,696

See independent auditors' report and accompanying notes.

CHILD & FAMILY RESOURCES, INC. AND SUBSIDIARY

CONSOLIDATED STATEMENT OF ACTIVITIES
For the year ended June 30, 2015

	Unrestricted	Temporarily Restricted	Total
Support and revenue:			
Contracts with governmental agencies	\$ 20,931,913	\$ -	\$ 20,931,913
Parent fees	499,388	-	499,388
Other grants	297,337	133,600	430,937
Contributions	242,600	75,000	317,600
Other revenue	34,851	-	34,851
In-kind contributions	34,590	-	34,590
United Way	19,500	-	19,500
Investment loss, net	(14,203)	-	(14,203)
Net assets released from restrictions:			
Satisfaction of restrictions	117,500	(117,500)	-
Total support and revenue	22,163,476	91,100	22,254,576
Expenses:			
Program services	19,925,746	-	19,925,746
General and administration	2,042,112	-	2,042,112
Fund-raising	159,299	-	159,299
Total expenses	22,127,157	-	22,127,157
Change in net assets	36,319	91,100	127,419
Net assets, beginning of year	4,009,527	39,230	4,048,757
Net assets, end of year	<u>\$ 4,045,846</u>	<u>\$ 130,330</u>	<u>\$ 4,176,176</u>

See independent auditors' report and accompanying notes.

CHILD & FAMILY RESOURCES, INC. AND SUBSIDIARY

CONSOLIDATED STATEMENT OF ACTIVITIES
For the year ended June 30, 2014

	Unrestricted	Temporarily Restricted	Total
Support and revenue:			
Contracts with governmental agencies	\$ 20,333,757	\$ -	\$ 20,333,757
Parent fees	518,135	-	518,135
Other grants	284,897	-	284,897
Contributions	232,595	20,000	252,595
Investment income, net	67,214	-	67,214
Gain from involuntary conversion	59,001	-	59,001
Other revenue	32,269	-	32,269
Special events, net	28,159	-	28,159
United Way	14,348	-	14,348
In-kind contributions	3,147	-	3,147
Net assets released from restrictions:			
Satisfaction of restrictions	125,106	(125,106)	-
Total support and revenue	21,698,628	(105,106)	21,593,522
Expenses:			
Program services	19,174,225	-	19,174,225
General and administration	1,909,027	-	1,909,027
Fund-raising	250,732	-	250,732
Total expenses	21,333,984	-	21,333,984
Change in net assets	364,644	(105,106)	259,538
Net assets, beginning of year	3,644,883	144,336	3,789,219
Net assets, end of year	\$ 4,009,527	\$ 39,230	\$ 4,048,757

See independent auditors' report and accompanying notes.

CHILD & FAMILY RESOURCES, INC. AND SUBSIDIARY

CONSOLIDATED STATEMENTS OF CASH FLOWS

For the years ended June 30, 2015 and 2014

	<u>2015</u>	<u>2014</u>
Cash flows from operating activities:		
Change in net assets	\$ 127,419	\$ 259,538
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation	189,325	192,298
Gain from involuntary conversion	-	(59,001)
Net realized and unrealized gain on investments	27,324	(59,169)
Reinvested interest and dividend income	(19,167)	(14,131)
Release of deferred grant obligation	(24,144)	-
Changes in operating assets and liabilities:		
Grants and accounts receivable	180,646	(199,431)
Prepaid expenses	11,487	126,604
Other assets	(500)	(827)
Accounts payable	15,615	8,492
Accrued expenses	(30,172)	96,701
Total adjustments	<u>350,414</u>	<u>91,536</u>
Net cash provided by operating activities	477,833	351,074
Cash flows from investing activities:		
Purchases of property and equipment	(87,566)	(50,382)
Insurance proceeds from involuntary conversion	-	32,363
Purchases of investments	(504,604)	(329,514)
Proceeds from sale of investments	497,455	333,944
Net cash used in investing activities	<u>(94,715)</u>	<u>(13,589)</u>
Cash flows from financing activities:		
Borrowings on lines of credit, net	(45,601)	14,354
Principal payments on capital lease payable	(9,482)	(16,944)
Advance on deferred grant obligation	-	217,297
Principal payments on note payable	(25,457)	(305,905)
Net cash used in financing activities	<u>(80,540)</u>	<u>(91,198)</u>
Net change in cash and cash equivalents	302,578	246,287
Cash and cash equivalents, beginning of year	402,694	156,407
Cash and cash equivalents, end of year	<u>\$ 705,272</u>	<u>\$ 402,694</u>
Supplemental disclosure of cash flow information:		
Cash paid for interest	<u>\$ 68,290</u>	<u>\$ 77,051</u>
Cash paid for income taxes	<u>\$ -</u>	<u>\$ -</u>
Supplemental schedule of noncash investing and financing activities:		
Reinvested interest and dividend income	<u>\$ 19,167</u>	<u>\$ 14,131</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, 2015 and 2014

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 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 \$130,330 and \$39,230 at June 30, 2015 and 2014, respectively.
- 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, 2015 and 2014.

See independent auditors' report.

CHILD & FAMILY RESOURCES, INC. AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

For the years ending June 30, 2015 and 2014

2. Summary of Significant Accounting Policies, Continued

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.

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, 2015 and 2014, advertising costs totaled \$76,301 and \$101,141, respectively.

Income Taxes

CFR and TNS are nonprofit organizations exempt from federal income tax under Internal Revenue Code Section 501(c)(3) and from Arizona income tax under Arizona Revised Statute Section 43-1201(4). 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. There were no income taxes paid during the years ended June 30, 2015 and 2014.

Both CFR and TNS 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, 2015, management is not aware of any uncertain tax positions that are potentially material. In addition, management is not aware of any matters which would cause CFR or TNS to lose their tax-exempt status.

See independent auditors' report.

CHILD & FAMILY RESOURCES, INC. AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

For the years ending June 30, 2015 and 2014

2. Summary of Significant Accounting Policies, Continued

Income Taxes, continued

The Organization's federal Form 990, *Return of Organization Exempt From Income Tax* is generally subject to examination by the Internal Revenue Service for three years after the date it was filed. The Organization's Arizona Form 99, *Arizona Exempt Organization Annual Information Return* is generally subject to examination by the Arizona Department of Revenue for four years after the date it was 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.

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, 2015 and 2014, the balance of grants and accounts receivable included \$616,134 and \$687,542, 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 \$5,000. 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.

See independent auditors' report.

CHILD & FAMILY RESOURCES, INC. AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

For the years ending June 30, 2015 and 2014

3. Concentration of Risk

The Federal Deposit Insurance Corporation (FDIC) insures cash accounts at banks up to \$250,000 per institution. 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, 2015 and 2014, the Organization had \$118,968 and \$218,983 of cash and investments in excess of FDIC and SIPC limitations.

4. Grants and Accounts Receivable

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

	<u>2015</u>	<u>2014</u>
Arizona Department of Economic Security	\$ 1,463,456	\$ 1,777,965
Arizona First Things First	807,399	877,509
Arizona Department of Education	588,402	433,387
Other governmental agencies	173,356	78,685
Other receivables	<u>123,952</u>	<u>169,582</u>
Total grants and accounts receivable	<u>\$ 3,156,565</u>	<u>\$ 3,337,128</u>

5. Investments

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

	<u>2015</u>	<u>2014</u>
Mutual funds	\$ 400,054	\$ 294,747
U.S. Treasury bills	137,013	140,578
Corporate bonds	70,307	65,275
Stocks	<u>-</u>	<u>107,782</u>
Total investments	<u>\$ 607,374</u>	<u>\$ 608,382</u>

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

	<u>2015</u>	<u>2014</u>
Interest and dividend income	\$ 19,167	\$ 14,131
Realized and unrealized (loss) gain, net	(27,324)	59,169
Investment fees	<u>(6,046)</u>	<u>(6,086)</u>
Total investment (loss) income, net	<u>\$ (14,203)</u>	<u>\$ 67,214</u>

See independent auditors' report.

CHILD & FAMILY RESOURCES, INC. AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

For the years ending June 30, 2015 and 2014

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, 2015 and 2014.

- *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 & FAMILY RESOURCES, INC. AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
For the years ending June 30, 2015 and 20146. Fair Value Measurements, Continued

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

	<u>2015</u>	<u>2014</u>
Mutual funds:		
Large value	\$ 110,370	\$ 114,088
Large blend	110,759	-
Large growth	110,396	-
Small growth	34,780	-
Small value	33,749	-
Small blend	-	67,335
Diversified emerging markets	-	58,895
Foreign large growth	-	54,429
Bonds	207,320	205,853
Stocks	-	107,782
Total investments	<u>\$ 607,374</u>	<u>\$ 608,382</u>

7. Property and Equipment

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

	<u>2015</u>	<u>2014</u>
Land	\$ 455,464	\$ 455,464
Buildings and improvements	3,706,049	3,624,696
Furniture, fixtures and equipment	1,658,047	1,651,835
Leasehold improvements	194,801	194,801
Vehicles	25,617	25,617
Total property and equipment, at cost or donated value	6,039,978	5,952,413
Less accumulated depreciation	<u>(3,208,221)</u>	<u>(3,018,898)</u>
Property and equipment, net	<u>\$ 2,831,757</u>	<u>\$ 2,933,515</u>

8. Deferred Grant Obligation

During the year ended June 30, 2013, Angel Charity of Tucson, Inc. (Angel Charity) made a pledge to TNS in the amount of \$241,441. The proceeds of the pledge are to be used to discharge the existing loan secured by the deed of trust on the land and buildings owned by TNS. In accordance with the terms of the agreement, TNS executed a nonrecourse, non-interest bearing promissory note in favor of Angel Charity during the year ended June 30, 2014. The note provides that, on the condition TNS continues to utilize the facility to provide children and youth programs, Angel Charity will forgive the note at a rate of \$24,144 per year over a ten year period beginning with the year ended June 30, 2014. The outstanding balance on the deferred grant obligation is \$193,153 and \$217,297 as of June 30, 2015 and 2014, respectively.

See independent auditors' report.

CHILD & FAMILY RESOURCES, INC. AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

For the years ending June 30, 2015 and 2014

8. Deferred Grant Obligation. Continued

Future maturities of the deferred grant obligation at June 30, 2015 are:

2016	\$	24,144
2017		24,144
2018		24,144
2019		24,144
2020		24,144
Thereafter		<u>72,433</u>
Total deferred grant obligation		193,153
Less deferred grant obligation, current portion		<u>(24,144)</u>
Deferred grant obligation, non-current portion	\$	<u>169,009</u>

9. Lines of Credit

CFR has a revolving line of credit with Wells Fargo Bank, which matures in April 2016. Interest is payable monthly at the prime rate of interest (3.25% at June 30, 2015 and 2014). If CFR defaults on any terms of the note, the interest rate increases to the prime rate plus 4%. The line of credit is primarily collateralized by a deed of trust. The outstanding balance at June 30, 2015 and 2014 was \$676,492 and \$626,492, respectively. Under the terms of this agreement, CFR is required to maintain a debt coverage ratio of at least 1.25:1. At June 30, 2015 and 2014, CFR was in compliance with the debt 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 3.65%. The outstanding balance at June 30, 2015 and 2014 was \$220,000 and \$320,000, 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, 2015 and 2014. The outstanding balance at June 30, 2015 and 2014 was \$22,231 and \$17,832, respectively.

10. Capital Lease Payable

CFR is obligated under a capital lease. At June 30, 2015 and 2014, the total cost of office equipment under the lease is \$43,700 and accumulated depreciation is \$33,503 and \$24,763, respectively.

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

	<u>2015</u>	<u>2014</u>
CFR capital lease, Bank of the West, \$929 per month including interest through July 2016; collateralized by office	\$ 10,783	\$ 20,265
Net minimum lease payments	10,783	20,265
Capital lease payable, current portion	<u>(10,478)</u>	<u>(9,482)</u>
Capital lease payable, non-current portion	<u>\$ 305</u>	<u>\$ 10,783</u>

See independent auditors' report.

CHILD & FAMILY RESOURCES, INC. AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

For the years ending June 30, 2015 and 2014

10. Capital Lease Payable, Continued

The future maximum lease payments due under the capital lease at June 30, 2015 are:

2016	\$	10,478
2017		921
Total lease payments		11,399
Less imputed interest		(616)
Net minimum lease payments	\$	<u>10,783</u>

11. Note Payable

The note payable consists of the following at June 30,:

	<u>2015</u>	<u>2014</u>
CFR note payable, due in monthly installments of \$3,907 through April 2029, including interest at 4.750%, collateralized by a deed of trust on real property.	\$ 431,007	\$ 456,464
Less current portion	<u>(27,011)</u>	<u>(25,761)</u>
Non-current portion	<u>\$ 403,996</u>	<u>\$ 430,703</u>

Principal maturities of the note payable are as follows at June 30, 2015:

2016	\$	27,011
2017		28,322
2018		29,697
2019		31,139
2020		32,651
Thereafter		282,187
	\$	<u>431,007</u>

12. Contracts with Governmental Agencies

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

	<u>2015</u>	<u>2014</u>
Arizona Department of Economic Security	\$ 7,187,882	\$ 7,317,775
Arizona Department of Education	5,895,737	5,067,953
Arizona First Things First	3,263,107	3,217,056
United Way First Things First	2,715,785	2,921,521
Arizona Department of Health Services	1,365,493	1,120,272
U.S. Department of Health and Human Services	399,663	555,540
Pima County	57,482	62,393
Other government contracts	<u>46,764</u>	<u>71,247</u>
Total contracts with governmental agencies	<u>\$ 20,931,913</u>	<u>\$ 20,333,757</u>

See independent auditors' report.

CHILD & FAMILY RESOURCES, INC. AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

For the years ending June 30, 2015 and 2014

13. Operating Leases

CFR has 11 facility and 10 office equipment leases for their programs and administrative offices under non-cancelable, long-term operating leases with various expirations through December 2020. Two of the leases contain a one-year renewal. All of the facility leases allow cancellation with 30 to 90 days notice if CFR can prove loss of grant funding for programs operated out of those locations. During the years ended June 30, 2015 and 2014, total rent and usage expense under these agreements was \$420,862 and \$425,112, respectively.

Future minimum lease payments under these leases are as follows for the years ending June 30,:

2016	\$	401,421
2017		197,818
2018		132,165
2019		126,409
2020		72,690
Thereafter		13,591
		<u>944,094</u>

CFR has two sublease agreements to rent out a portion of its facilities. Total sublease income during the years ended June 30, 2015 and 2014 was \$32,675 and \$31,640, 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. Some of the governmental contracts are also subject to termination for convenience clauses. The Organization has received no such termination notices.

15. 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 contributed \$65,832 and \$37,743 to the plan during the years ended June 30, 2015 and 2014, respectively.

16. Subsequent Events

The Organization was unaware of any subsequent events as of December 30, 2015, 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, 2015

ASSETS

	Child & Family Resources, Inc.	Tucson Nursery Schools and Child Care Centers, Inc.	Eliminating Entries	Total
Current assets:				
Cash and cash equivalents	\$ 684,815	\$ 20,457	\$ -	\$ 705,272
Grants and accounts receivable	3,128,181	28,384	-	3,156,565
Investments	607,374	-	-	607,374
Note receivable, related party	102,000	-	(102,000)	-
Prepaid expenses	54,756	-	-	54,756
Total current assets	4,577,126	48,841	(102,000)	4,523,967
Property and equipment, net	2,408,806	422,951	-	2,831,757
Other assets	48,151	-	-	48,151
Total assets	<u>\$ 7,034,083</u>	<u>\$ 471,792</u>	<u>\$ (102,000)</u>	<u>\$ 7,403,875</u>

LIABILITIES AND NET ASSETS

Current liabilities:				
Accounts payable	\$ 993,480	\$ 8,433	\$ -	\$ 1,001,913
Accrued expenses	656,512	15,608	-	672,120
Note payable, related party	-	102,000	(102,000)	-
Lines of credit	896,492	22,231	-	918,723
Capital lease payable, current portion	10,478	-	-	10,478
Deferred grant obligation, current portion	-	24,144	-	24,144
Note payable, current portion	27,011	-	-	27,011
Total current liabilities	2,583,973	172,416	(102,000)	2,654,389
Capital lease payable, non-current portion	305	-	-	305
Deferred grant obligation, non-current portion	-	169,009	-	169,009
Note payable, non-current portion	403,996	-	-	403,996
Total liabilities	2,988,274	341,425	(102,000)	3,227,699
Net assets:				
Unrestricted:				
General operating	1,948,463	(292,584)	-	1,655,879
Investment in property and equipment	1,967,016	422,951	-	2,389,967
Total unrestricted net assets	3,915,479	130,367	-	4,045,846
Temporarily restricted	130,330	-	-	130,330
Total net assets	4,045,809	130,367	-	4,176,176
Total liabilities and net assets	<u>\$ 7,034,083</u>	<u>\$ 471,792</u>	<u>\$ (102,000)</u>	<u>\$ 7,403,875</u>

Supplementary Information.
See independent auditors' report.

CHILD & FAMILY RESOURCES, INC. AND SUBSIDIARY
CONSOLIDATING STATEMENT OF FINANCIAL POSITION
June 30, 2014

ASSETS

	Child & Family Resources, Inc.	Tucson Nursery Schools and Child Care Centers, Inc.	Eliminating Entries	Total
Current assets:				
Cash and cash equivalents	\$ 378,701	\$ 23,993	\$ -	\$ 402,694
Grants and accounts receivable	3,298,959	38,169	-	3,337,128
Investments	608,382	-	-	608,382
Note receivable, related party	103,000	-	(103,000)	-
Prepaid expenses	66,243	-	-	66,243
Total current assets	4,455,285	62,162	(103,000)	4,414,447
Property and equipment, net	2,482,650	450,865	-	2,933,515
Other assets	47,651	83	-	47,734
Total assets	\$ 6,985,586	\$ 513,110	\$ (103,000)	\$ 7,395,696

LIABILITIES AND NET ASSETS

Current liabilities:				
Accounts payable	\$ 977,417	\$ 8,880	\$ -	\$ 986,297
Accrued expenses	687,216	15,076	-	702,292
Note payable, related party	-	103,000	(103,000)	-
Lines of credit	946,492	17,832	-	964,324
Capital lease payable, current portion	9,482	-	-	9,482
Deferred grant obligation, current portion	-	24,144	-	24,144
Note payable, current portion	25,761	-	-	25,761
Total current liabilities	2,646,368	168,932	(103,000)	2,712,300
Capital lease payable, non-current portion	10,783	-	-	10,783
Deferred grant obligation, non-current portion	-	193,153	-	193,153
Note payable, non-current portion	430,703	-	-	430,703
Total liabilities	3,087,854	362,085	(103,000)	3,346,939
Net assets:				
Unrestricted:				
General operating	1,852,581	(82,543)	-	1,770,038
Investment in property and equipment	2,005,921	233,568	-	2,239,489
Total unrestricted net assets	3,858,502	151,025	-	4,009,527
Temporarily restricted	39,230	-	-	39,230
Total net assets	3,897,732	151,025	-	4,048,757
Total liabilities and net assets	\$ 6,985,586	\$ 513,110	\$ (103,000)	\$ 7,395,696

Supplementary Information.
See independent auditors' report.

CHILD & FAMILY RESOURCES, INC. AND SUBSIDIARY

CONSOLIDATING STATEMENT OF ACTIVITIES
For the year ended June 30, 2015

	Child & Family Resources, Inc.		Tucson Nursery Schools and Child Care Centers, Inc.		Eliminating Entries	Total
	Unrestricted	Temporarily Restricted	Unrestricted	Temporarily Restricted		
Support and revenue:						
Contracts with governmental agencies	\$ 20,668,447	\$ -	\$ 263,466	\$ -	\$ -	\$ 20,931,913
Parent fees	365,525	-	133,863	-	-	499,388
Other grants	253,288	133,600	44,049	-	-	430,937
Contributions	215,445	75,000	27,155	-	-	317,600
Other revenue	34,851	-	-	-	-	34,851
In-kind contributions	34,590	-	-	-	-	34,590
United Way	12,000	-	7,500	-	-	19,500
Investment loss, net	(14,203)	-	-	-	-	(14,203)
Net assets released from restrictions:						
Satisfaction of restrictions	117,500	(117,500)	-	-	-	-
Total support and revenue	21,687,443	91,100	476,033	-	-	22,254,576
Expenses:						
Program services	19,481,851	-	443,895	-	-	19,925,746
General and administration	1,989,316	-	52,796	-	-	2,042,112
Fund-raising	159,299	-	-	-	-	159,299
Total expenses	21,630,466	-	496,691	-	-	22,127,157
Change in net assets	56,977	91,100	(20,658)	-	-	127,419
Net assets, beginning of year	3,858,502	39,230	151,025	-	-	4,048,757
Net assets, end of year	\$ 3,915,479	\$ 130,330	\$ 130,367	\$ -	\$ -	\$ 4,176,176

Supplementary Information.
See independent auditors' report.

CHILD & FAMILY RESOURCES, INC. AND SUBSIDIARY

CONSOLIDATING STATEMENT OF ACTIVITIES
For the year ended June 30, 2014

	Child & Family Resources, Inc.		Tucson Nursery Schools and Child Care Centers, Inc.			Eliminating Entries	Total
	Unrestricted	Temporarily Restricted	Total CFR	Unrestricted	Temporarily Restricted		
Support and revenue:							
Contracts with governmental agencies	\$ 20,042,668	\$ -	\$ 20,042,668	\$ 291,089	\$ -	\$ -	\$ 20,333,757
Parent fees	379,227	-	379,227	138,908	-	-	518,135
Other grants	216,113	-	216,113	68,784	-	-	284,897
Contributions	207,517	20,000	227,517	25,078	-	-	252,595
Investment income, net	67,214	-	67,214	-	-	-	67,214
Gain from involuntary conversion	59,001	-	59,001	-	-	-	59,001
Other revenue	31,669	-	31,669	600	-	-	32,269
Special events, net	28,159	-	28,159	-	-	-	28,159
United Way	6,848	-	6,848	7,500	-	-	14,348
In-kind contributions	3,147	-	3,147	-	-	-	3,147
Net assets released from restrictions:							
Satisfaction of restrictions	125,106	(125,106)	-	-	-	-	-
Total support and revenue	21,166,669	(105,106)	21,061,563	531,959	-	-	21,593,522
Expenses:							
Program services	18,701,508	-	18,701,508	472,717	-	-	19,174,225
General and administration	1,853,779	-	1,853,779	55,248	-	-	1,909,027
Fund-raising	250,732	-	250,732	-	-	-	250,732
Total expenses	20,806,019	-	20,806,019	527,965	-	-	21,333,984
Change in net assets	360,650	(105,106)	255,544	3,994	-	-	259,538
Net assets, beginning of year	3,497,852	144,336	3,642,188	147,031	-	-	3,789,219
Net assets, end of year	\$ 3,858,502	\$ 39,230	\$ 3,897,732	\$ 151,025	\$ -	\$ -	\$ 4,048,757

Supplementary Information.
See independent auditors' report.

CHILD & FAMILY RESOURCES, INC. AND SUBSIDIARY

CONSOLIDATED SCHEDULE OF FUNCTIONAL EXPENSES
For the year ended June 30, 2015

	Family and Community Services	Early Childcare and Education Services	Child Care	Nutrition	Total Program Services	General and Administrative	Fund-raising	Total
Personnel costs	\$ 6,675,323	\$ 2,321,289	\$ 246,145	\$ 24,344	\$ 9,267,101	\$ 843,044	\$ 62,559	\$ 10,172,704
Payments to subrecipients and providers	-	5,160,363	-	-	5,160,363	-	-	5,160,363
Professional and outside services	1,225,208	417,751	3,842	380	1,647,181	135,786	7,335	1,790,302
Materials and supplies	855,209	105,463	46,481	36	1,007,189	232,782	9,556	1,249,527
Employee related costs	331,963	621,571	36,103	3,571	993,208	121,091	14,208	1,128,507
Other operating expenses	343,216	137,653	41,262	3,722	525,853	431,094	37,655	994,602
Occupancy costs	335,072	170,707	31,949	3,159	540,887	200,970	22,498	764,355
Travel and related	471,780	129,308	2,581	255	603,924	30,118	613	634,655
Equipment	124,698	43,656	59	6	168,419	47,227	4,875	220,521
Assistance to individuals	11,621	-	-	-	11,621	-	-	11,621
Total expenses	\$ 10,374,090	\$ 9,107,761	\$ 408,422	\$ 35,473	\$ 19,925,746	\$ 2,042,112	\$ 159,299	\$ 22,127,157

Supplementary Information.
See independent auditors' report.

CHILD & FAMILY RESOURCES, INC. AND SUBSIDIARY

CONSOLIDATED SCHEDULE OF FUNCTIONAL EXPENSES
For the year ended June 30, 2014

	Family and Community Services	Early Childcare and Education Services	Child Care	Nutrition	Total Program Services	General and Administrative	Fund-raising	Total
Personnel costs	\$ 6,510,858	\$ 2,340,173	\$ 248,584	\$ 24,585	\$ 9,124,200	\$ 766,075	\$ 118,913	\$ 10,009,188
Payments to subrecipients and providers	-	4,363,960	-	-	4,363,960	-	-	4,363,960
Employee related costs	1,158,433	419,766	39,641	3,920	1,621,760	95,791	20,506	1,738,057
Materials and supplies	364,552	822,022	55,564	43	1,242,181	122,361	20,881	1,385,423
Professional and outside services	824,055	116,221	4,287	424	944,987	238,327	2,465	1,185,779
Other operating expenses	304,683	129,954	49,992	4,785	489,414	403,700	37,918	931,032
Occupancy costs	320,003	166,407	32,943	3,258	522,611	189,960	42,599	755,170
Travel and related	504,834	139,097	3,716	367	648,014	31,056	2,035	681,105
Equipment	149,029	55,791	553	55	205,428	61,757	5,415	272,600
Assistance to individuals	11,670	-	-	-	11,670	-	-	11,670
Total expenses	\$ 10,148,117	\$ 8,553,391	\$ 435,280	\$ 37,437	\$ 19,174,225	\$ 1,909,027	\$ 250,732	\$ 21,333,984

Supplementary Information.
See independent auditors' report.