

CHILD & FAMILY RESOURCES, INC. AND SUBSIDIARY

Audited Consolidated Financial Statements  
and Supplementary Information

For the years ended June 30, 2014 and 2013

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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, 2014 and 2013, 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 \$513,110 and \$540,881 as of June 30, 2014 and 2013, respectively, and total support and revenue of \$531,959 and \$490,859, 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, 2014 and 2013, 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 16, 2014, 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.

*LUOMIA KLEWER & CO. PLLC*

December 16, 2014

CHILD & FAMILY RESOURCES, INC. AND SUBSIDIARY  
CONSOLIDATED STATEMENTS OF FINANCIAL POSITION  
June 30, 2014 and 2013

ASSETS

	2014	2013
Current assets:		
Cash and cash equivalents	\$ 402,694	\$ 156,407
Grants and accounts receivable	3,337,128	3,091,205
Investments	608,382	539,512
Prepaid expenses	66,243	192,847
Total current assets	4,414,447	3,979,971
Property and equipment, net	2,933,515	3,095,285
Other assets	47,734	46,907
Total assets	\$ 7,395,696	\$ 7,122,163

LIABILITIES AND NET ASSETS

Current liabilities:		
Accounts payable	\$ 986,297	\$ 977,805
Accrued expenses	702,292	605,591
Lines of credit	964,324	949,970
Capital leases payable, current portion	9,482	17,004
Deferred grant obligation, current portion	24,144	-
Long-term debt, current portion	25,761	83,036
Total current liabilities	2,712,300	2,633,406
Capital leases payable, non-current portion	10,783	20,205
Deferred grant obligation, non-current portion	193,153	-
Long-term debt, non-current portion	430,703	679,333
Total liabilities	3,346,939	3,332,944
Net assets:		
Unrestricted:		
General operating	1,770,038	1,349,176
Investment in property and equipment	2,239,489	2,295,707
Total unrestricted net assets	4,009,527	3,644,883
Temporarily restricted	39,230	144,336
Total net assets	4,048,757	3,789,219
Total liabilities and net assets	\$ 7,395,696	\$ 7,122,163

See independent auditors' report and accompanying notes.

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

## CONSOLIDATED STATEMENT OF ACTIVITIES

For the year ended June 30, 2014

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Total</u>
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	<u>\$ 4,009,527</u>	<u>\$ 39,230</u>	<u>\$ 4,048,757</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, 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 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 STATEMENTS OF CASH FLOWS

For the years ended June 30, 2014 and 2013

	2014	2013
Cash flows from operating activities:		
Change in net assets	\$ 259,538	\$ 252,661
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation	192,298	201,110
Donated property and equipment	-	(4,782)
Gain from involuntary conversion	(59,001)	-
Net realized and unrealized gain on investments	(59,169)	(30,883)
Reinvested interest and dividend income	(14,131)	(17,663)
Changes in operating assets and liabilities:		
Grants and accounts receivable	(199,431)	(70,703)
Prepaid expenses	126,604	(164,165)
Other assets	(827)	(92)
Accounts payable	8,492	(108,643)
Accrued expenses	96,701	(35,847)
Total adjustments	91,536	(231,668)
Net cash provided by operating activities	351,074	20,993
Cash flows from investing activities:		
Purchases of property and equipment	(50,382)	(134,114)
Insurance proceeds from involuntary conversion	32,363	-
Purchases of investments	(329,514)	(134,350)
Proceeds from sale of investments	333,944	121,505
Net cash used in investing activities	(13,589)	(146,959)
Cash flows from financing activities:		
Borrowings on lines of credit, net	14,354	281,139
Principal payments on capital leases payable	(16,944)	(21,110)
Advance on deferred grant obligation	217,297	-
Principal payments on long-term debt	(305,905)	(67,815)
Net cash (used in) provided by financing activities	(91,198)	192,214
Net change in cash and cash equivalents	246,287	66,248
Cash and cash equivalents, beginning of year	156,407	90,159
Cash and cash equivalents, end of year	\$ 402,694	\$ 156,407
Supplemental disclosure of cash flow information:		
Cash paid for interest	\$ 77,051	\$ 88,124
Cash paid for income taxes	\$ -	\$ -
Supplemental schedule of noncash investing and financing activities:		
Donated property and equipment	\$ -	\$ 4,782
Reinvested interest and dividend income	\$ 14,131	\$ 17,663
Refinance of long-term debt	\$ 459,405	\$ 383,898
Refinance of line of credit	\$ 622,887	\$ -
Insurance proceeds due for involuntary conversion	\$ 46,492	\$ -

See independent auditors' report and accompanying notes.



CHILD & FAMILY RESOURCES, INC. AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

For the years ending June 30, 2014 and 2013

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 \$39,230 and \$144,336 at June 30, 2014 and 2013, 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, 2014 and 2013.

See independent auditors' report.

CHILD & FAMILY RESOURCES, INC. AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

For the years ending June 30, 2014 and 2013

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, 2014 and 2013, advertising costs totaled \$101,141 and \$91,974, 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, 2014 and 2013.

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, 2014, 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, 2014 and 2013

2. Summary of Significant Accounting Policies, Continued

Income Taxes, continued

The Organization's federal Form 990, Return of Organization Exempt from Income 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, 2014 and 2013, the balance of grants and accounts receivable included \$687,542 and \$355,223, 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.

Reclassifications

Certain items from 2013 have been reclassified to conform to the 2014 financial statement presentation.

See independent auditors' report.

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

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

For the years ending June 30, 2014 and 2013

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, 2014 and 2013, the Organization had \$218,983 and \$59,911 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,:

	2014	2013
Arizona Department of Economic Security	\$ 1,777,965	\$ 1,343,921
Arizona First Things First	877,509	1,063,177
Arizona Department of Education	433,387	411,240
Other receivables	169,582	175,125
Other governmental agencies	78,685	97,742
Total grants and accounts receivable	<u>\$ 3,337,128</u>	<u>\$ 3,091,205</u>

5. Investments

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

	2014	2013
Stocks	\$ 107,782	\$ 178,375
Bonds	205,853	198,236
Mutual funds	294,747	162,901
Total investments	<u>\$ 608,382</u>	<u>\$ 539,512</u>

The amortized cost and estimated fair value of bonds held to maturity at June 30, 2014, 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.

	Amortized Cost	Estimated Fair Value
Due in one year or less	\$ 45,144	\$ 45,747
Due after one year but less than five years	123,586	127,980
Due after five years but less than ten years	31,320	32,126
	<u>\$ 200,050</u>	<u>\$ 205,853</u>

See independent auditors' report.

CHILD & FAMILY RESOURCES, INC. AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

For the years ending June 30, 2014 and 2013

5. Investments, Continued

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

	2014	2013
Interest and dividend income	\$ 14,131	\$ 17,663
Realized and unrealized gain, net	59,169	30,883
Investment fees	(6,086)	(6,009)
Total investment income, net	<u>\$ 67,214</u>	<u>\$ 42,537</u>

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, 2014 and 2013.

- *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.

See independent auditors' report.

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

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

For the years ending June 30, 2014 and 2013

6. Fair Value Measurements, Continued

The methods described above may produce a fair value calculation that may not be indicative of net realizable value or reflective of future fair values. Furthermore, while 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.

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

	2014	2013
Stocks	\$ 107,782	\$ 178,375
Bonds	205,853	198,236
Mutual funds:		
Large value	114,088	-
Small blend	67,335	63,847
Diversified emerging markets	58,895	61,914
Foreign large growth	54,429	37,140
Total investments	<u>\$ 608,382</u>	<u>\$ 539,512</u>

7. Property and Equipment

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

	2014	2013
Land	\$ 455,464	\$ 455,464
Buildings and improvements	3,624,696	3,642,339
Furniture, fixtures and equipment	1,651,835	1,612,596
Leasehold improvements	194,801	194,801
Vehicles	25,617	25,617
Construction in progress	-	900
Total property and equipment, at cost or donated value	5,952,413	5,931,717
Less accumulated depreciation	<u>(3,018,898)</u>	<u>(2,836,432)</u>
Property and equipment, net	<u>\$ 2,933,515</u>	<u>\$ 3,095,285</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 \$217,297 as of June 30, 2014.

See independent auditors' report.

CHILD & FAMILY RESOURCES, INC. AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

For the years ending June 30, 2014 and 2013

8. Deferred Grant Obligation, Continued

Future maturities of the deferred grant obligation at June 30, 2014 are:

2015	\$	24,144
2016		24,144
2017		24,144
2018		24,144
2019		24,144
Thereafter		96,577
Total deferred grant obligation		217,297
Less deferred grant obligation, current portion		(24,144)
Deferred grant obligation, non-current portion	\$	193,153

9. Lines of Credit

As of June 30, 2014, 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, 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, 2014 was \$626,492. Under the terms of this agreement, CFR is required to maintain a debt coverage ratio of at least 1.25:1. At June 30, 2014, CFR was in compliance with the debt coverage ratio.

As of June 30, 2013, CFR had a revolving line of credit with National Bank of Arizona, which matured during December 2013. Interest is payable monthly at the prime rate of interest (3.25% at June 30, 2013). 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 was \$607,888. 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 3.65%. The outstanding balance at June 30, 2014 and 2013 was \$320,000 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, 2014 and 2013. The outstanding balance at June 30, 2014 and 2013 was \$17,832 and \$22,082, respectively.

10. Capital Leases Payable

CFR is obligated under capital leases. At June 30, 2014 and 2013, the total cost of office equipment under these leases is \$76,296 and accumulated depreciation is \$57,359 and \$40,470, respectively.

See independent auditors' report.

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

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

For the years ending June 30, 2014 and 2013

10. Capital Leases Payable, Continued

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

	<u>2014</u>	<u>2013</u>
CFR capital lease, Bank of the West, \$929 per month including interest through July 2016; collateralized by office	\$ 20,265	\$ 28,787
CFR capital lease, Insight Global Finance, \$1,105 per month including interest through March 2014; collateralized by computer equipment.	-	8,422
Net minimum lease payments	20,265	37,209
Capital leases payable, current portion	<u>(9,482)</u>	<u>(17,004)</u>
Capital leases payable, non-current portion	<u>\$ 10,783</u>	<u>\$ 20,205</u>

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

2015	\$ 11,147
2016	11,147
2017	<u>929</u>
Total lease payments	23,223
Less imputed interest	<u>(2,958)</u>
Net minimum lease payments	<u>\$ 20,265</u>

11. Long-Term Debt

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

	<u>2014</u>	<u>2013</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%. The mortgage payable was refinanced during May 2014 with the note payable described below.	\$ -	\$ 368,094
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. The note payable was refinanced during May 2014 with the note payable described below.	-	146,916

See independent auditors' report.



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

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

For the years ending June 30, 2014 and 2013

11. Long-Term Debt, Continued

	<u>2014</u>	<u>2013</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. The note was repaid during the year ended June 30, 2014 with proceeds from the Angel Charity grant discussed in Note 8.	-	247,359
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.	456,464	-
Total long-term debt	456,464	762,369
Less current portion	<u>(25,761)</u>	<u>(83,036)</u>
Non-current portion	<u>\$ 430,703</u>	<u>\$ 679,333</u>

Principal maturities of long-term debt are as follows at June 30, 2014:

2015	\$ 25,761
2016	27,011
2017	28,322
2018	29,697
2019	31,139
Thereafter	314,534
	<u>\$ 456,464</u>

12. Contracts with Governmental Agencies

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

	<u>2014</u>	<u>2013</u>
Arizona Department of Economic Security	\$ 7,317,775	\$ 6,264,757
Arizona Department of Education	5,067,953	4,499,272
Arizona First Things First	3,217,056	2,933,099
United Way First Things First	2,921,521	2,854,735
Arizona Department of Health Services	1,120,272	878,564
U.S. Department of Health and Human Services	555,540	536,187
Other government contracts	71,247	126,087
Pima County	62,393	60,448
Total contracts with governmental agencies	<u>\$ 20,333,757</u>	<u>\$ 18,153,149</u>

See independent auditors' report.

CHILD & FAMILY RESOURCES, INC. AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

For the years ending June 30, 2014 and 2013

13. Special Events

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

	2014	2013
Revenue	\$ 48,255	\$ 44,845
Expense	(20,096)	(24,074)
Net revenue	<u>\$ 28,159</u>	<u>\$ 20,771</u>

14. Operating Leases

CFR has 9 facility and 9 office equipment leases for their programs and administrative offices under non-cancelable, long-term operating leases with various expirations through May 2019. 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. TNS leases a copier under an operating lease with an expiration date of July 20, 2014. During the years ended June 30, 2014 and 2013, total rent and usage expense under these agreements was \$425,112 and \$421,076, respectively.

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

2015	\$ 349,860
2016	300,644
2017	98,705
2018	33,325
2019	27,269
	<u>\$ 809,803</u>

CFR has two sublease agreements to rent out a portion of its facilities. Total sublease income during the years ended June 30, 2014 and 2013 was \$31,640 and \$27,430, respectively.

15. 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.

16. 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. In July 2014, the former officer passed away.

See independent auditors' report.

CHILD & FAMILY RESOURCES, INC. AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

For the years ending June 30, 2014 and 2013

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17. 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 \$37,743 and \$-0- to the plan during the years ended June 30, 2014 and 2013, respectively.

18. Subsequent Events

The Organization was unaware of any subsequent events as of December 16, 2014, 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, 2014

ASSETS

	Child & Family Resources, Inc.	Tucson Nursery Schools, 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
<b>Total current assets</b>	<b>4,455,285</b>	<b>62,162</b>	<b>(103,000)</b>	<b>4,414,447</b>
Property and equipment, net	2,482,650	450,865	-	2,933,515
Other assets	47,651	83	-	47,734
<b>Total assets</b>	<b>\$ 6,985,586</b>	<b>\$ 513,110</b>	<b>\$ (103,000)</b>	<b>\$ 7,395,696</b>

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 leases payable, current portion	9,482	-	-	9,482
Deferred grant obligation, current portion	-	24,144	-	24,144
Long-term debt, current portion	25,761	-	-	25,761
<b>Total current liabilities</b>	<b>2,646,368</b>	<b>168,932</b>	<b>(103,000)</b>	<b>2,712,300</b>
Capital leases payable, non-current portion	10,783	-	-	10,783
Deferred grant obligation, non-current portion	-	193,153	-	193,153
Long-term debt, non-current portion	430,703	-	-	430,703
<b>Total liabilities</b>	<b>3,087,854</b>	<b>362,085</b>	<b>(103,000)</b>	<b>3,346,939</b>
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
<b>Total unrestricted net assets</b>	<b>3,858,502</b>	<b>151,025</b>	<b>-</b>	<b>4,009,527</b>
Temporarily restricted	39,230	-	-	39,230
<b>Total net assets</b>	<b>3,897,732</b>	<b>151,025</b>	<b>-</b>	<b>4,048,757</b>
<b>Total liabilities and net assets</b>	<b>\$ 6,985,586</b>	<b>\$ 513,110</b>	<b>\$ (103,000)</b>	<b>\$ 7,395,696</b>

Supplementary Information.  
See independent auditors' report.

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 ACTIVITIES  
For the year ended June 30, 2014

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

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	Total CFR	Unrestricted	Temporarily Restricted	Total TNS		
<b>Support and revenue:</b>								
Contracts with governmental agencies	\$ 17,869,624	\$ -	\$ 17,869,624	\$ 283,525	\$ -	\$ 283,525	\$ -	\$ 18,153,149
Parent fees	404,125	-	404,125	116,456	-	116,456	-	520,581
Other grants	285,800	69,009	354,809	52,770	-	52,770	-	407,579
Contributions	231,704	70,000	301,704	23,689	-	23,689	-	325,393
Investment income, net	42,537	-	42,537	-	-	-	-	42,537
Other revenue	27,430	-	27,430	2,037	-	2,037	-	29,467
Special events, net	20,771	-	20,771	-	-	-	-	20,771
United Way	13,057	-	13,057	7,600	-	7,600	-	20,657
In-kind contributions	3,861	-	3,861	4,782	-	4,782	-	8,643
Net assets released from restrictions:								
Satisfaction of restrictions	63,300	(63,300)	-	20,000	(20,000)	-	-	-
Total support and revenue	18,962,209	75,709	19,037,918	510,859	(20,000)	490,859	-	19,528,777
<b>Expenses:</b>								
Program services	16,802,419	-	16,802,419	426,265	-	426,265	-	17,228,684
General and administration	1,740,940	-	1,740,940	52,051	-	52,051	-	1,792,991
Fund-raising	254,441	-	254,441	-	-	-	-	254,441
Total expenses	18,797,800	-	18,797,800	478,316	-	478,316	-	19,276,116
Change in net assets	164,409	75,709	240,118	32,543	(20,000)	12,543	-	252,661
Net assets, beginning of year	3,333,443	68,627	3,402,070	114,488	20,000	134,488	-	3,536,558
Net assets, end of year	\$ 3,497,852	\$ 144,336	\$ 3,642,188	\$ 147,031	\$ -	\$ 147,031	\$ -	\$ 3,789,219

Supplementary Information.  
 See independent auditors' report.



CHILD & FAMILY RESOURCES, INC. AND SUBSIDIARY

CONSOLIDATED SCHEDULE OF FUNCTIONAL EXPENSES

For the year ended June 30, 2014

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

Supplementary Information.  
See independent auditors' report.

CHILD & FAMILY RESOURCES, INC. AND SUBSIDIARY

CONSOLIDATED SCHEDULE OF FUNCTIONAL EXPENSES  
For the year ended June 30, 2013

	Early 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	\$ 751,909	\$ 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	350,487	40,775	23	1,178,558	82,388	23,451	1,284,397
Other operating expenses	136,127	293,121	49,294	4,844	483,386	367,131	47,745	898,262
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.

