

**CHILD & FAMILY RESOURCES, INC. AND SUBSIDIARY**

**Audited Consolidated Financial Statements**

**For the year ended June 30, 2010 and 2009**





CHILD & FAMILY RESOURCES, INC.

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## INDEPENDENT AUDITORS' REPORT

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

We have audited the accompanying consolidated statements of financial position of Child & Family Resources, Inc. and Subsidiary (a nonprofit organization) as of June 30, 2010 and 2009, and the related consolidated statements of activities, functional expenses and cash flows for the years then ended. These consolidated financial statements are the responsibility of the Organization's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We did not audit the financial statements of Tucson Nursery Schools and Child Care Centers, Inc., a subsidiary, which statements reflect total assets of \$365,991 and \$474,524 as of June 30, 2010 and 2009, respectively, and total support and revenue of \$360,396 and \$547,781 for the years then ended. Those statements were audited by other auditors whose report has been furnished to us, and our opinion, insofar as it relates to the amounts included for Tucson Nursery Schools and Child Care Centers, Inc. is based solely on the report of the other auditors.

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 of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, based on our audit and the report of other auditors, 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, 2010 and 2009 and the changes in its net assets and its cash flows for the years then ended in conformity with generally accepted accounting principles accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated October 13, 2010 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 the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audits.

*LUDWIG KLEWER & CO. PLLC*

October 13, 2010

## CHILD &amp; FAMILY RESOURCES, INC.

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION  
June 30, 2010 and 2009

ASSETS

	2010	2009
Current assets:		
Cash and cash equivalents	\$ 121,019	\$ 324,455
Grants and accounts receivable	2,262,438	1,568,257
Investments	480,976	462,494
Prepaid expenses	27,221	27,834
Total current assets	2,891,654	2,383,040
Property and equipment, net	3,061,091	3,341,991
Other assets	45,798	40,175
Total assets	\$ 5,998,543	\$ 5,765,206

LIABILITIES AND NET ASSETS

Current liabilities:		
Accounts payable	\$ 648,459	\$ 539,035
Accrued expenses	577,758	551,023
Deferred revenue	3,869	683
Lines of credit	358,976	352,361
Capital leases payable, current portion	7,928	10,458
Long-term debt, current portion	42,745	39,434
Total current liabilities	1,639,735	1,492,994
Capital leases payable, non-current portion	-	7,209
Long-term debt, non-current portion	658,904	701,015
Total liabilities	2,298,639	2,201,218
Net assets:		
Unrestricted:		
General operating	1,300,223	933,580
Investment in property and equipment	2,351,514	2,583,875
Total unrestricted net assets	3,651,737	3,517,455
Temporarily restricted	48,167	46,533
Total net assets	3,699,904	3,563,988
Total liabilities and net assets	\$ 5,998,543	\$ 5,765,206

See independent auditors' report and accompanying notes.

## CHILD &amp; FAMILY RESOURCES, INC.

CONSOLIDATED STATEMENT OF ACTIVITIES  
For the year ended June 30, 2010

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Total</u>
<b>Support and revenue:</b>			
Contracts from governmental agencies	\$ 13,319,565	\$ -	\$ 13,319,565
Other grants	644,377	160,920	805,297
Parent fees	636,021	-	636,021
Contributions	172,432	54,000	226,432
United Way	96,914	488	97,402
In-kind contributions	81,726	-	81,726
Other revenue	77,178	-	77,178
Investment income, net	49,289	-	49,289
Special events, net	40,642	-	40,642
Loss on disposal of property and equipment	(34,652)	-	(34,652)
<b>Net assets released from restrictions:</b>			
Satisfaction of grant restrictions	<u>213,774</u>	<u>(213,774)</u>	<u>-</u>
<b>Total support and revenue</b>	<b>15,297,266</b>	<b>1,634</b>	<b>15,298,900</b>
<b>Expenses:</b>			
Program services	13,492,801	-	13,492,801
<b>Supporting services:</b>			
General and administration	1,499,008	-	1,499,008
Fund-raising	<u>171,175</u>	<u>-</u>	<u>171,175</u>
<b>Total expenses</b>	<b><u>15,162,984</u></b>	<b><u>-</u></b>	<b><u>15,162,984</u></b>
<b>Change in net assets</b>	<b>134,282</b>	<b>1,634</b>	<b>135,916</b>
<b>Net assets, beginning of year</b>	<b><u>3,517,455</u></b>	<b><u>46,533</u></b>	<b><u>3,563,988</u></b>
<b>Net assets, end of year</b>	<b><u>\$ 3,651,737</u></b>	<b><u>\$ 48,167</u></b>	<b><u>\$ 3,699,904</u></b>

See independent auditors' report and accompanying notes.

## CHILD &amp; FAMILY RESOURCES, INC.

## CONSOLIDATED STATEMENT OF ACTIVITIES

For the year ended June 30, 2009

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Total</u>
Support and revenue:			
Contracts from governmental agencies	\$ 14,622,928	\$ -	\$ 14,622,928
Other grants	836,609	12,401	849,010
Parent fees	819,256	-	819,256
United Way	317,676	31,866	349,542
Contributions	262,710	-	262,710
Other revenue	49,018	-	49,018
Special events, net	32,261	-	32,261
In-kind contributions	28,723	-	28,723
Investment loss, net	(76,229)	-	(76,229)
Net assets released from restrictions:			
Satisfaction of grant restrictions	95,652	(95,652)	-
Total support and revenue	<u>16,988,604</u>	<u>(51,385)</u>	<u>16,937,219</u>
Expenses:			
Program services	15,135,915	-	15,135,915
Supporting services:			
General and administration	1,742,515	-	1,742,515
Fund-raising	154,349	-	154,349
Total expenses	<u>17,032,779</u>	<u>-</u>	<u>17,032,779</u>
Change in net assets	(44,175)	(51,385)	(95,560)
Net assets, beginning of year	<u>3,561,630</u>	<u>97,918</u>	<u>3,659,548</u>
Net assets, end of year	<u>\$ 3,517,455</u>	<u>\$ 46,533</u>	<u>\$ 3,563,988</u>

See independent auditors' report and accompanying notes.

CHILD & FAMILY RESOURCES, INC.

CONSOLIDATED STATEMENT OF FUNCTIONAL EXPENSES  
For the year ended June 30, 2010

	Early Childcare and Education Services	Family and Community Services	Child Care	Nutrition	Total Program Services	General and Administrative	Fund-raising	Total
Personnel costs	\$ 1,401,750	\$ 3,998,215	\$ 189,313	\$ 18,723	\$ 5,608,001	\$ 645,951	\$ 90,922	\$ 6,344,874
Employee related costs	278,838	771,179	34,642	3,426	1,088,085	85,312	15,906	1,189,303
Materials and supplies	403,371	322,127	39,442	189	765,129	101,984	41,727	908,840
Other operating expenses	123,814	239,720	48,846	4,650	417,030	355,824	6,616	779,470
Occupancy costs	124,510	349,538	24,216	2,395	500,659	96,789	8,669	606,117
Professional and outside services	71,652	326,036	3,784	374	401,846	182,308	1,604	585,758
Travel and related	88,017	285,373	-	-	373,390	12,300	1,745	387,435
Equipment	29,373	144,658	8,481	838	183,350	17,526	3,986	204,862
Assistance to individuals	-	21,133	-	-	21,133	1,014	-	22,147
Payments to subrecipients and providers	3,402,073	732,105	-	-	4,134,178	-	-	4,134,178
Total expenses	\$ 5,923,398	\$ 7,190,084	\$ 348,724	\$ 30,595	\$ 13,492,801	\$ 1,499,008	\$ 171,175	\$ 15,162,984

See independent auditors' report and accompanying notes.

CHILD & FAMILY RESOURCES, INC.

CONSOLIDATED STATEMENT OF FUNCTIONAL EXPENSES  
For the year ended June 30, 2009

	Early Childcare and Education Services	Family and Community Services	Child Care	Nutrition	Total Program Services	General and Administrative	Fund-raising	Total
Personnel costs	\$ 1,127,671	\$ 4,164,149	\$ 286,142	\$ 28,300	\$ 5,606,262	\$ 718,929	\$ 96,934	\$ 6,422,125
Employee related costs	254,598	882,479	44,633	4,414	1,186,124	104,833	17,196	1,308,153
Materials and supplies	265,593	453,704	43,651	182	763,130	96,252	21,314	880,696
Other operating expenses	92,887	238,146	53,761	4,756	389,550	493,256	4,698	887,504
Occupancy costs	114,861	352,411	33,206	3,284	503,762	72,766	8,328	584,856
Travel and related	53,025	308,488	-	-	361,513	18,987	692	381,192
Professional and outside services	97,642	367,665	6,406	634	472,347	201,970	343	674,660
Equipment	21,579	117,619	12,543	1,241	152,982	35,522	4,344	192,848
Assistance to individuals	-	60,256	-	-	60,256	-	500	60,756
Payments to subrecipients and providers	3,467,199	2,172,790	-	-	5,639,989	-	-	5,639,989
Total expenses	\$ 5,495,055	\$ 9,117,707	\$ 480,342	\$ 42,811	\$ 15,135,915	\$ 1,742,515	\$ 154,349	\$ 17,032,779

See independent auditors' report and accompanying notes.

## CHILD &amp; FAMILY RESOURCES, INC.

## CONSOLIDATED STATEMENTS OF CASH FLOWS

For the years ended June 30, 2010 and 2009

	<u>2010</u>	<u>2009</u>
Cash flows from operating activities:		
Change in net assets	\$ 135,916	\$ (95,560)
Adjustments to reconcile change in net assets to net cash used in operating activities:		
Depreciation and amortization	215,393	297,621
Loss on disposal of property and equipment	34,652	-
Net realized and unrealized (gain) loss on investments	(24,547)	99,924
Reinvested interest and dividend income	(18,463)	(21,512)
Changes in operating assets and liabilities:		
Grants and accounts receivable	(694,181)	282,609
Prepaid expenses	613	(3,469)
Other assets	(5,623)	19,887
Accounts payable	109,424	(714,180)
Accrued expenses	26,735	(129,930)
Deferred revenue	3,186	74
Total adjustments	<u>(352,811)</u>	<u>(168,976)</u>
Net cash used in operating activities	(216,895)	(264,536)
Cash flows from investing activities:		
Purchases of property and equipment	(32,461)	(62,453)
Proceeds from disposal of property and equipment	64,736	-
Purchases of investments	(233,968)	(248,584)
Proceeds from sale of investments	258,496	258,496
Net cash provided by (used in) investing activities	56,803	(52,541)
Cash flows from financing activities:		
Advances on lines of credit, net	6,615	34,315
Principal payments on capital leases	(11,159)	(10,065)
Principal payments on long-term debt	(38,800)	(35,715)
Net cash used in financing activities	<u>(43,344)</u>	<u>(11,465)</u>
Net change in cash and cash equivalents	(203,436)	(328,542)
Cash and cash equivalents, beginning of year	324,455	652,997
Cash and cash equivalents, end of year	<u>\$ 121,019</u>	<u>\$ 324,455</u>
Supplemental disclosure of statement of cash flow information:		
Cash paid for interest	<u>\$ 65,949</u>	<u>\$ 66,855</u>
Purchase of equipment with capital lease payable	<u>\$ 1,420</u>	<u>\$ -</u>
Reinvested interest and dividend income	<u>\$ 18,463</u>	<u>\$ 21,512</u>

See independent auditors' report and accompanying notes.

CHILD & FAMILY RESOURCES, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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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 and Safford.

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

2. Summary of Significant Accounting Policies

Basis of Presentation

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

Financial Statement Presentation

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

- Unrestricted net assets – Net assets that are not subject to donor-imposed stipulations. A portion of the unrestricted net assets have been designated by the board of directors as expended for property and equipment to reflect the total carrying value after accumulated depreciation of all property and equipment, net of directly related liabilities. Remaining unrestricted net assets are available for general operations of the Organization.
- Temporarily restricted net assets – Net assets that are subject to donor-imposed stipulations that may or will be met either by actions of the Organization and/or the passage of time. When a restriction expires, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets released from restrictions.
- 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, 2010 and 2009.

All contributions are considered to be available for unrestricted use unless specifically restricted by the donor. Amounts received that are designated for future periods or restricted by the donor for specific purposes are reported as temporarily restricted or permanently restricted support that increase those net asset classes. When a temporary restriction expires, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets released from restrictions.

CHILD & FAMILY RESOURCES, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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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 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 financial statements at their fair market value if the following criteria are met:

- The services require specialized skills and are provided by individuals possessing those skills;
- The services 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 financial statements since they do not meet the criteria for recognition under generally accepted accounting principles.

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, 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 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

TNS uses advertising to promote its programs. The costs of advertising are expensed as incurred. During the years ended June 30, 2010 and 2009, advertising costs totaled \$1,215 and \$3,581, respectively.

Income Taxes

Child & Family Resources, Inc. and Tucson Nursery Schools and Child Care Centers, Inc. are nonprofit organizations under Internal Revenue Code Section 501(c)(3), and as such are exempt from both Federal and Arizona income taxes. Therefore, no provision has been made for income taxes in the accompanying consolidated financial statements.

Child & Family Resources, Inc. and Tucson Nursery Schools and Child Care Centers, Inc. 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.

On July 1, 2009, the Organization adopted the accounting standard on accounting for uncertainty in income taxes. Management evaluated the Organization's tax positions and concluded that the Organization had taken no uncertain tax positions that require adjustment to the financial statements to comply with the provisions of the accounting standard. In addition, management is not aware of any matters which would cause the Organization to lose its tax-exempt status.

CHILD & FAMILY RESOURCES, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

2. Summary of Significant Accounting Policies, Continued

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, 2010 and 2009, the balance of accounts receivable included \$44,731 and \$122,789, respectively, of amounts over 30 days past due. Based on historical collections, 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 their estimated fair value. Such donations are reported as unrestricted support unless the donor has restricted the donated assets to a specific purpose. Assets donated with explicit restrictions regarding their use and contributions of cash that must be used to acquire property and equipment are reported as restricted support. Absent donor stipulations regarding how long those donated assets must be maintained, the Organization reports expirations of donor restrictions when the donated or acquired assets are placed in service as instructed by the donor. The Organization reclassifies temporarily restricted net assets to unrestricted net assets at that time.

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

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

Investments

In accordance with generally accepted accounting principles 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 statements of financial position. Unrealized gains and losses are included with the change in net assets.

Reclassifications

Certain amounts in the 2009 financial statements have been reclassified to conform to the presentation in the 2010 financial statements.

3. Concentration of Risk

The Federal Deposit Insurance Corporation (FDIC) insures cash accounts at banks up to \$250,000. 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. It is the opinion of management that the solvency of the referenced financial institutions is not of concern at this time. At June 30, 2010, and 2009, the Organization had no cash and investments in excess of FDIC and SIPC limitations.

## CHILD &amp; FAMILY RESOURCES, INC.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

4. Grants and Accounts Receivable

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

	<u>2010</u>	<u>2009</u>
Arizona First Things First	\$ 928,390	\$ 222,676
Arizona Department of Economic Security	544,254	534,399
Arizona Department of Education	366,488	357,034
Other governmental agencies	346,885	226,471
Other receivables	76,421	227,677
Total grants and accounts receivable	<u>\$ 2,262,438</u>	<u>\$ 1,568,257</u>

5. Investments

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

	<u>2010</u>	<u>2009</u>
Stocks	\$ 220,519	\$ 237,865
Bonds	203,874	177,892
Mutual funds	56,583	46,737
Total investments	<u>\$ 480,976</u>	<u>\$ 462,494</u>

The amortized cost and estimated fair value of bonds held to maturity at June 30, 2010, by contractual maturity, are shown below. Expected maturities will differ from contractual maturities because borrowers may have the right to call or prepay obligations with or without prepayment penalties.

	<u>Amortized Cost</u>	<u>Estimated Fair Value</u>
Due in one year or less	\$ 20,267	\$ 20,889
Due after one year but less than five years	135,035	145,712
Due after five years but less than ten years	33,968	37,273
Due after ten years	-	-
	<u>\$ 189,270</u>	<u>\$ 203,874</u>

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

	<u>2010</u>	<u>2009</u>
Interest and dividend income	\$ 24,742	\$ 23,695
Realized and unrealized gain (loss), net	24,547	(99,924)
Total investment income (loss), net	<u>\$ 49,289</u>	<u>\$ (76,229)</u>

CHILD & FAMILY RESOURCES, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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, 2010.

- *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 Agency 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 investment assets measured on a recurring basis at June 30, 2010 are:

	Level 1	Level 2	Level 3	Total
Stocks	\$ 220,519	\$ -	\$ -	\$ 220,519
Bonds	203,874	-	-	203,874
Mutual funds	56,583	-	-	56,583
Total investments	<u>\$ 480,976</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 480,976</u>

## CHILD &amp; FAMILY RESOURCES, INC.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

6. Fair Value Measurements, Continued

Fair values of investment assets measured on a recurring basis at June 30, 2009 are:

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Stocks	\$ 237,865	\$ -	\$ -	\$ 237,865
Bonds	177,892	-	-	177,892
Mutual funds	46,737	-	-	46,737
Total investments	<u>\$ 462,494</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 462,494</u>

7. Property and Equipment

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

	<u>2010</u>	<u>2009</u>
Land	\$ 455,464	\$ 455,464
Buildings and improvements	3,416,042	3,563,801
Furniture, fixtures and equipment	1,335,991	1,304,866
Leasehold improvements	114,166	112,816
Vehicles	25,617	25,617
Total property and equipment, at cost or donated value	5,347,280	5,462,564
Less accumulated depreciation	<u>(2,286,189)</u>	<u>(2,120,573)</u>
Property and equipment, net	<u>\$ 3,061,091</u>	<u>\$ 3,341,991</u>

8. Lines of Credit

CFR has a revolving line of credit with JP Morgan Chase Bank, which matures in February 2011. Interest is payable monthly at the prime rate (3.25% and 5% at June 30, 2010 and 2009) less .75%. If CFR defaults on any terms of the note, the interest rate increases to the prime rate plus 3%. The line of credit is primarily collateralized by grants and accounts receivable. The outstanding balance at June 30, 2010 and 2009 was \$341,000 and \$291,000, respectively.

Under the terms of this agreement, CFR is required to maintain a debt service coverage ratio of at least 1.00. At June 30, 2010 and 2009, CFR was in compliance with the debt service coverage ratio.

TNS has a \$40,000 line of credit with JP Morgan Chase Bank and \$25,000 line of credit with Compass Bank. These lines of credit require interest be paid on outstanding balances at variable annual interest rates of 5.75% and 7.5% at June 30, 2010, respectively, and 4.25% and 5.75% at June 30, 2009, respectively. The combined outstanding balance at June 30, 2010 and 2009 was \$17,976 and \$61,361, respectively.

9. Capital Leases Payable

The Organization is obligated under two capital leases. The total cost of office equipment under these leases is \$31,000 and accumulated depreciation is \$23,250 and \$12,917 at June 30, 2010 and 2009, respectively.

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

	<u>2010</u>	<u>2009</u>
CFR capital lease, Avaya Financial Services, \$913 per month including interest through December 2010; collateralized by phone system equipment	\$ 7,206	\$ 17,667

## CHILD &amp; FAMILY RESOURCES, INC.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

9. Capital Lease Payable, Continued

	<u>2010</u>	<u>2009</u>
TNS capital lease, \$184 per month including interest through October 2010; collateralized by a copy machine.	722	-
Total capital leases payable	7,928	17,667
Capital leases, current	<u>(7,928)</u>	<u>(10,458)</u>
Capital leases, non-current	<u>\$ -</u>	<u>\$ 7,209</u>

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

2011	\$ 8,060
Less imputed interest	<u>(132)</u>
Net minimum lease payments	<u>\$ 7,928</u>

10. Long-Term Debt

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

	<u>2010</u>	<u>2009</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.	\$ 402,686	\$ 415,442
CFR note payable to a financial corporation for purchase of software, hardware and consulting services. Payments are due in monthly installments of \$1,338 through January 2012, including interest at 11%, collateralized by equipment.	23,550	36,234
TNS note payable, due in monthly installments of \$914 through February 2016, including interest of 8.13%, collateralized by deed of trust.	49,319	55,984
TNS note payable, due in monthly installments of \$914 with a final balloon payment of \$217,255 due July 2011, including interest of 7.5%, collateralized by deed of trust.	<u>226,094</u>	<u>232,789</u>
Total long-term debt	701,649	740,449
Less current portion	<u>(42,745)</u>	<u>(39,434)</u>
Non-current portion	<u>\$ 658,904</u>	<u>\$ 701,015</u>

Principal maturities of long-term debt are:

2011	\$ 42,745
2012	249,491
2013	382,973
2014	9,211
2015	9,988
Thereafter	<u>7,241</u>
	<u>\$ 701,649</u>

## CHILD &amp; FAMILY RESOURCES, INC.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

11. Governmental Agency Contract Revenue

Revenue from contracts with governmental agencies consists of the following for the year end June 30,:

	<u>2010</u>	<u>2009</u>
Arizona Department of Economic Security	\$ 5,179,316	\$ 9,417,584
Arizona Department of Education	3,818,313	3,975,594
Arizona First Things First	1,646,253	-
United Way First Things First	1,863,074	-
U.S. Department of Health and Human Services	472,625	446,798
City of Tucson	133,973	184,450
Other government contracts	121,320	465,460
Pima County	84,691	133,042
Total governmental agency contract revenue	<u>\$ 13,319,565</u>	<u>\$ 14,622,928</u>

12. Special Events

Special event activities consist of the following for the year end June 30,:

	<u>2010</u>	<u>2009</u>
Revenue	\$ 69,459	\$ 68,015
Expense	(28,817)	(35,754)
Net revenue	<u>\$ 40,642</u>	<u>\$ 32,261</u>

13. Operating Leases

CFR leases office equipment and facilities for their programs and administrative offices under non-cancelable, long-term operating leases with various expirations through September 2014. One of the leases contains a one-year renewal. Three of the leases allow cancellation with 30 to 90 days notice if CFR can prove loss of grant funding for programs operated out of those locations. TNS leases office equipment under three operating leases with various expirations through July 2014. During the years ended June 30, 2010 and 2009, total rent and usage expense under these agreements was \$171,217 and \$173,285, respectively.

Future minimum lease payments under these leases are:

2011	\$ 163,497
2012	62,374
2013	33,832
2014	6,300
	<u>\$ 266,003</u>

CFR had two sublease agreements to rent out a portion of their facilities. One agreement expired March 2010, and the second agreement expires in August 2011. Total sublease income was \$25,479 and \$27,284 for the years ended June 30, 2010 and 2009, respectively.

CHILD & FAMILY RESOURCES, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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14. Contingent Liabilities

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

15. Post-Employment Benefits

In September 2004, CFR entered into an agreement whereby it would pay certain post-employment benefits to a former officer for recognition of years of service. An annual stipend of \$25,000 is to be paid in monthly installments for a period not more than five years with the condition that the former officer not engage in fundraising activities within Pima County, Arizona, nor solicit employment of any employees of CFR. The five-year period expired in December 31, 2009. Additionally, a supplemental medical benefit in the amount of \$3,000 per year is due until the death of the former officer.

16. Retirement Plan

CFR has a 401(k) and defined contribution pension plan. The plan allows eligible employees to contribute a portion of their wages on a pretax basis into the plan. The plan also allows for discretionary matching and/or profit sharing contributions by CFR. Contributions by CFR for the years ended June 30, 2010 and 2009 were approximately \$-0- and \$70,000, respectively.

17. Subsequent Events

The Organization was unaware of any subsequent events as of October 13, 2010, the date the financial statements were available to be issued.

**SUPPLEMENTARY INFORMATION**

CHILD & FAMILY RESOURCES, INC.  
CONSOLIDATING STATEMENT OF FINANCIAL POSITION  
June 30, 2010

ASSETS

	<u>Child &amp; Family Resources, Inc.</u>	<u>Tucson Nursery Schools, Inc.</u>	<u>Eliminating Entries</u>	<u>Total</u>
<b>Current assets:</b>				
Cash and cash equivalents	\$ 93,032	\$ 27,987	\$ -	\$ 121,019
Grants and accounts receivable	2,230,926	31,512	-	2,262,438
Investments	480,976	-	-	480,976
Note receivable, related party	123,675	-	(123,675)	-
Prepaid expenses	27,221	-	-	27,221
<b>Total current assets</b>	<b>2,955,830</b>	<b>59,499</b>	<b>(123,675)</b>	<b>2,891,654</b>
Property and equipment, net	2,754,599	306,492	-	3,061,091
Other assets	45,798	-	-	45,798
<b>Total assets</b>	<b>\$ 5,756,227</b>	<b>\$ 365,991</b>	<b>\$ (123,675)</b>	<b>\$ 5,998,543</b>

LIABILITIES AND NET ASSETS

<b>Current liabilities:</b>				
Accounts payable	\$ 644,454	\$ 4,005	\$ -	\$ 648,459
Accrued expenses	552,242	25,516	-	577,758
Deferred revenue	-	3,869	-	3,869
Note payable, related party	-	123,675	(123,675)	-
Lines of credit	341,000	17,976	-	358,976
Capital leases payable	7,206	722	-	7,928
Long-term debt, current portion	28,006	14,739	-	42,745
<b>Total current liabilities</b>	<b>1,572,908</b>	<b>190,502</b>	<b>(123,675)</b>	<b>1,639,735</b>
Long-term debt, non-current portion	398,230	260,674	-	658,904
<b>Total liabilities</b>	<b>1,971,138</b>	<b>451,176</b>	<b>(123,675)</b>	<b>2,298,639</b>
<b>Net assets:</b>				
<b>Unrestricted:</b>				
General operating	1,415,765	(115,542)	-	1,300,223
Investment in property and equipment	2,321,157	30,357	-	2,351,514
<b>Total unrestricted net assets (deficit)</b>	<b>3,736,922</b>	<b>(85,185)</b>	<b>-</b>	<b>3,651,737</b>
Temporarily restricted	48,167	-	-	48,167
<b>Total net assets (deficit)</b>	<b>3,785,089</b>	<b>(85,185)</b>	<b>-</b>	<b>3,699,904</b>
<b>Total liabilities and net assets</b>	<b>\$ 5,756,227</b>	<b>\$ 365,991</b>	<b>\$ (123,675)</b>	<b>\$ 5,998,543</b>

Supplementary Information.  
See independent auditors' report

CHILD & FAMILY RESOURCES, INC.  
CONSOLIDATING STATEMENT OF FINANCIAL POSITION  
June 30, 2009

ASSETS

	Child & Family Resources, Inc.	Tucson Nursery Schools, Inc.	Eliminating Entries	Total
<b>Current assets:</b>				
Cash and cash equivalents	\$ 310,944	\$ 13,511	\$ -	\$ 324,455
Grants and accounts receivable	1,528,888	39,369	-	1,568,257
Investments	462,494	-	-	462,494
Note receivable, related party	100,000	-	(100,000)	-
Prepaid expenses	27,834	-	-	27,834
<b>Total current assets</b>	<b>2,430,160</b>	<b>52,880</b>	<b>(100,000)</b>	<b>2,383,040</b>
Property and equipment, net	2,920,347	421,644	-	3,341,991
Other assets	40,175	-	-	40,175
<b>Total assets</b>	<b>\$ 5,390,682</b>	<b>\$ 474,524</b>	<b>\$ (100,000)</b>	<b>\$ 5,765,206</b>

LIABILITIES AND NET ASSETS

<b>Current liabilities:</b>				
Accounts payable	\$ 528,354	\$ 10,681	\$ -	\$ 539,035
Accrued expenses	517,690	33,333	-	551,023
Deferred revenue	146	537	-	683
Note payable, related party	-	100,000	(100,000)	-
Lines of credit	291,000	61,361	-	352,361
Capital lease payable, current portion	10,458	-	-	10,458
Long-term debt, current portion	25,799	13,635	-	39,434
<b>Total current liabilities</b>	<b>1,373,447</b>	<b>219,547</b>	<b>(100,000)</b>	<b>1,492,994</b>
Capital lease payable, non-current portion	7,209	-	-	7,209
Long-term debt, non-current portion	425,877	275,138	-	701,015
<b>Total liabilities</b>	<b>1,806,533</b>	<b>494,685</b>	<b>(100,000)</b>	<b>2,201,218</b>
<b>Net assets:</b>				
<b>Unrestricted:</b>				
General operating	1,086,612	(153,032)	-	933,580
Investment in property and equipment	2,451,004	132,871	-	2,583,875
<b>Total unrestricted net assets (deficit)</b>	<b>3,537,616</b>	<b>(20,161)</b>	<b>-</b>	<b>3,517,455</b>
Temporarily restricted	46,533	-	-	46,533
<b>Total net assets (deficit)</b>	<b>3,584,149</b>	<b>(20,161)</b>	<b>-</b>	<b>3,563,988</b>
<b>Total liabilities and net assets</b>	<b>\$ 5,390,682</b>	<b>\$ 474,524</b>	<b>\$ (100,000)</b>	<b>\$ 5,765,206</b>

Supplementary Information.  
See independent auditors' report.

CHILD & FAMILY RESOURCES, INC.  
**CONSOLIDATING STATEMENT OF ACTIVITIES**  
For the year ended June 30, 2010

	Child & Family Resources, Inc.			Tucson Nursery Schools, Inc.		Eliminating Entries	Total
	Unrestricted	Temporarily Restricted	Total CFR	Unrestricted			
<b>Support and revenue:</b>							
Contracts from governmental agencies	\$ 13,025,413	\$ -	\$ 13,025,413	\$ 294,152	\$ -	\$ -	\$ 13,319,565
Other grants	644,377	160,920	805,297	-	-	-	805,297
Parent fees	577,378	-	577,378	58,643	-	-	636,021
Contributions	146,842	54,000	200,842	25,590	-	-	226,432
United Way	80,251	488	80,739	16,663	-	-	97,402
In-kind contributions	81,726	-	81,726	-	-	-	81,726
Other revenue	77,178	-	77,178	-	-	-	77,178
Investment income, net	49,289	-	49,289	-	-	-	49,289
Special events, net	40,642	-	40,642	-	-	-	40,642
Loss on disposal of property and equipment	-	-	-	(34,652)	-	-	(34,652)
<b>Net assets released from restrictions:</b>							
Satisfaction of grant restrictions	213,774	(213,774)	-	-	-	-	-
<b>Total support and revenue</b>	<b>14,936,870</b>	<b>1,634</b>	<b>14,938,504</b>	<b>360,396</b>	<b>-</b>	<b>-</b>	<b>15,298,900</b>
<b>Expenses:</b>							
Program services	13,113,482	-	13,113,482	379,319	-	-	13,492,801
Supporting services:							
General and administration	1,452,907	-	1,452,907	46,101	-	-	1,499,008
Fund-raising	171,175	-	171,175	-	-	-	171,175
<b>Total expenses</b>	<b>14,737,564</b>	<b>-</b>	<b>14,737,564</b>	<b>425,420</b>	<b>-</b>	<b>-</b>	<b>15,162,984</b>
<b>Change in net assets</b>	<b>199,306</b>	<b>1,634</b>	<b>200,940</b>	<b>(65,024)</b>	<b>-</b>	<b>-</b>	<b>135,916</b>
<b>Net assets (deficit), beginning of year</b>	<b>3,537,616</b>	<b>46,533</b>	<b>3,584,149</b>	<b>(20,161)</b>	<b>-</b>	<b>-</b>	<b>3,563,988</b>
<b>Net assets (deficit), end of year</b>	<b>\$ 3,736,922</b>	<b>\$ 48,167</b>	<b>\$ 3,785,089</b>	<b>\$ (85,185)</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ 3,699,904</b>

Supplementary Information.

See independent auditors' report.

CHILD & FAMILY RESOURCES, INC.  
 CONSOLIDATING STATEMENT OF ACTIVITIES  
 For the year ended June 30, 2009

	Child & Family Resources, Inc.			Tucson Nursery Schools, Inc.		Eliminating Entries	Total
	Unrestricted	Temporarily Restricted	Total CFR	Unrestricted			
Support and revenue:							
Contracts from governmental agencies	\$ 14,214,889	\$ -	\$ 14,214,889	\$ 408,039	\$ -	\$ -	\$ 14,622,928
Other grants	836,609	12,401	849,010	-	-	-	849,010
Parent fees	731,383	-	731,383	87,873	-	-	819,256
United Way	299,617	31,866	331,483	18,059	-	-	349,542
Contributions	228,900	-	228,900	33,810	-	-	262,710
Other revenue	49,018	-	49,018	-	-	-	49,018
Special events, net	32,261	-	32,261	-	-	-	32,261
In-kind contributions	28,723	-	28,723	-	-	-	28,723
Investment loss, net	(76,229)	-	(76,229)	-	-	-	(76,229)
Net assets released from restrictions:							
Satisfaction of grant restrictions	95,652	(95,652)	-	-	-	-	-
Total support and revenue	16,440,823	(51,385)	16,389,438	547,781	-	-	16,937,219
Expenses:							
Program services	14,612,762	-	14,612,762	523,153	-	-	15,135,915
Supporting services:							
General and administration	1,677,246	-	1,677,246	65,269	-	-	1,742,515
Fund-raising	154,349	-	154,349	-	-	-	154,349
Total expenses	16,444,357	-	16,444,357	588,422	-	-	17,032,779
Change in net assets	(3,534)	(51,385)	(54,919)	(40,641)	-	-	(95,560)
Net assets, beginning of year	3,541,150	97,918	3,639,068	20,480	-	-	3,659,548
Net assets (deficit), end of year	\$ 3,537,616	\$ 46,533	\$ 3,584,149	\$ (20,161)	\$ -	\$ -	\$ 3,563,988

Supplementary Information.  
 See independent auditors' report.

