

HENRY & HORNE, LLP
CERTIFIED PUBLIC ACCOUNTANTS



Phoenix, Arizona

FINANCIAL STATEMENTS

Years Ended June 30, 2013 and 2012





HENRY & HORNE, LLP
Certified Public Accountants

INDEPENDENT AUDITORS' REPORT

Board of Directors
The Crisis Nursery, Inc.
Phoenix, Arizona

We have audited the accompanying financial statements of The Crisis Nursery, Inc. (a nonprofit organization), which comprise the statements of financial position as of June 30, 2013 and 2012, and the related statements of activities, functional expenses, and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these 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.

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the 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 auditors' 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.

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Opinion

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

Henry + Home, LLP

Tempe, Arizona
November 5, 2013

THE CRISIS NURSERY, INC.
STATEMENTS OF FINANCIAL POSITION
June 30, 2013 and 2012

	<u>2013</u>	<u>2012</u>
ASSETS		
Cash and cash equivalents	\$ 572,410	\$ 635,249
Accounts receivable	291,957	321,855
Promises to give, current portion, net	155,013	165,824
Grants receivable	395,000	-
Supplies inventory	216,213	179,435
Prepaid expenses and other assets	<u>68,764</u>	<u>72,471</u>
TOTAL CURRENT ASSETS	1,699,357	1,374,834
PROMISES TO GIVE, net of current portion, unamortized discount and allowance for uncollectible promises	101,875	139,565
BENEFICIAL INTEREST IN LEAD TRUST	28,585	32,378
INVESTMENTS HELD BY THE CRISIS NURSERY FOUNDATION	148,379	132,329
PROPERTY AND EQUIPMENT, net	<u>2,233,396</u>	<u>2,313,215</u>
TOTAL ASSETS	<u>\$ 4,211,592</u>	<u>\$ 3,992,321</u>
LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES		
Accounts payable	\$ 64,144	\$ 49,106
Accrued expenses	<u>191,649</u>	<u>233,327</u>
TOTAL CURRENT LIABILITIES	<u>255,793</u>	<u>282,433</u>
NET ASSETS		
Unrestricted	3,220,285	3,262,808
Temporarily restricted	<u>735,514</u>	<u>447,080</u>
TOTAL NET ASSETS	<u>3,955,799</u>	<u>3,709,888</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 4,211,592</u>	<u>\$ 3,992,321</u>

See accompanying notes.

THE CRISIS NURSERY, INC.
STATEMENTS OF ACTIVITIES
June 30, 2013 and 2012

	2013		
	Unrestricted	Temporarily Restricted	Total
REVENUES, SUPPORT AND OTHER INCOME			
Contributions	\$ 940,202	\$ 112,832	\$ 1,053,034
Special events contributions	630,190	-	630,190
In-kind childcare supplies	254,624	-	254,624
Contract revenue	3,154,451	-	3,154,451
Grants	455,416	395,000	850,416
Change in value of beneficial interest in trust	-	1,207	1,207
Investment return	16,050	-	16,050
Other income	10,635	-	10,635
Net assets released from restrictions	220,605	(220,605)	-
	<u>5,682,173</u>	<u>288,434</u>	<u>5,970,607</u>
Special events income	222,916	-	222,916
Direct benefit to donors	(101,137)	-	(101,137)
	<u>121,779</u>	<u>-</u>	<u>121,779</u>
TOTAL REVENUES, SUPPORT AND OTHER INCOME	<u>5,803,952</u>	<u>288,434</u>	<u>6,092,386</u>
EXPENSES AND LOSSES			
Program services	4,741,146	-	4,741,146
Supporting services			
Management and general	586,707	-	586,707
Fundraising	518,944	-	518,944
TOTAL SUPPORTING SERVICES	<u>1,105,651</u>	<u>-</u>	<u>1,105,651</u>
TOTAL EXPENSES BEFORE PROVISION FOR PROMISES TO GIVE	<u>5,846,797</u>	<u>-</u>	<u>5,846,797</u>
Provision for promises to give allowance	(322)	-	(322)
TOTAL EXPENSES AND LOSSES	<u>5,846,475</u>	<u>-</u>	<u>5,846,475</u>
CHANGE IN NET ASSETS	(42,523)	288,434	245,911
NET ASSETS, BEGINNING OF YEAR	<u>3,262,808</u>	<u>447,080</u>	<u>3,709,888</u>
NET ASSETS, END OF YEAR	<u>\$ 3,220,285</u>	<u>\$ 735,514</u>	<u>\$ 3,955,799</u>

See accompanying notes.

2012

Unrestricted	Temporarily Restricted	Total
\$ 768,732	\$ 60,659	\$ 829,391
423,933	-	423,933
189,014	-	189,014
3,572,486	-	3,572,486
570,880	15,000	585,880
-	1,352	1,352
7,329	-	7,329
53,359	-	53,359
297,781	(297,781)	-
5,883,514	(220,770)	5,662,744
180,795	-	180,795
(72,507)	-	(72,507)
108,288	-	108,288
5,991,802	(220,770)	5,771,032
4,606,648	-	4,606,648
596,423	-	596,423
492,481	-	492,481
1,088,904	-	1,088,904
5,695,552	-	5,695,552
2,058	-	2,058
5,697,610	-	5,697,610
294,192	(220,770)	73,422
2,968,616	667,850	3,636,466
\$ 3,262,808	\$ 447,080	\$ 3,709,888

THE CRISIS NURSERY, INC.
STATEMENT OF FUNCTIONAL EXPENSES
Year Ended June 30, 2013

	Program Services			
	Children's Shelter	FACES	Family Foster Care	Family Support
Salaries and wages	\$ 1,345,876	\$ 1,100,520	\$ 346,109	\$ 108,212
Payroll taxes and employee benefits	343,941	280,458	70,835	20,630
Training, conferences and travel	8,101	33,835	545	129
Program supplies	24,513	63,892	2,165	1,340
Office and janitorial supplies	18,840	14,721	2,156	1,154
Printing and postage	126	138	834	-
Equipment and software	24,873	21,406	6,432	3,350
IT consulting	9,903	9,860	3,698	1,594
In-kind childcare supplies	102,266	65,978	32,805	9,765
Marketing and design	-	-	-	-
Insurance	20,705	19,387	1,874	1,874
Other	5,577	9,611	63,444	29
Repairs and maintenance	47,786	29,406	553	558
Food and medications	74,455	50,207	797	654
Telephone and utilities	63,730	53,471	7,989	6,541
Transportation	12,387	2,092	14,024	1,678
Banking fees	-	180	-	-
Special event expenses - food and venue	-	-	-	-
Grant writing fees	-	-	-	-
Depreciation	90,791	75,802	2,272	2,272
Total operating expenses	2,193,870	1,830,964	556,532	159,780
Direct benefit to donors: Food and entertainment expenses	-	-	-	-
TOTAL EXPENSES	<u>\$ 2,193,870</u>	<u>\$ 1,830,964</u>	<u>\$ 556,532</u>	<u>\$ 159,780</u>

See accompanying notes.

<u>Total Program Services</u>	<u>Management and General</u>	<u>Fundraising Activities</u>	<u>Total</u>
\$ 2,900,717	\$ 393,231	\$ 253,418	\$ 3,547,366
715,864	85,581	52,230	853,675
42,610	1,530	2,864	47,004
91,910	-	-	91,910
36,871	12,579	1,865	51,315
1,098	1,659	23,149	25,906
56,061	11,766	6,425	74,252
25,055	15,236	4,254	44,545
210,814	-	-	210,814
-	-	10,262	10,262
43,840	6,870	1,874	52,584
78,661	11,964	9,339	99,964
78,303	14,643	553	93,499
126,113	-	-	126,113
131,731	14,351	5,299	151,381
30,181	2,595	-	32,776
180	6,373	6,707	13,260
-	-	106,933	106,933
-	-	31,500	31,500
<u>171,137</u>	<u>8,329</u>	<u>2,272</u>	<u>181,738</u>
4,741,146	586,707	518,944	5,846,797
-	-	101,137	101,137
<u>\$ 4,741,146</u>	<u>\$ 586,707</u>	<u>\$ 620,081</u>	<u>\$ 5,947,934</u>

THE CRISIS NURSERY, INC.
STATEMENT OF FUNCTIONAL EXPENSES
Year Ended June 30, 2012

	Program Services			
	Children's Shelter	FACES	Family Foster Care	Healthy Families
Salaries and wages	\$ 1,195,504	\$ 924,200	\$ 295,461	\$ 433,262
Payroll taxes and employee benefits	317,793	256,706	66,071	109,708
Training, conferences and travel	2,124	25,837	617	600
Program supplies	16,505	8,810	599	-
Office and janitorial supplies	17,961	14,888	1,175	490
Printing and postage	162	160	715	106
Equipment and software	24,913	12,281	4,460	5,474
IT consulting	14,699	7,034	1,573	191
In-kind childcare supplies	76,499	41,135	25,630	18,055
Marketing and design	-	-	-	-
Insurance	21,805	17,382	1,884	2,116
Other	14,002	11,177	58,017	-
Repairs and maintenance	25,470	32,482	561	1,192
Food and medications	68,440	51,223	1,101	-
Telephone and utilities	61,421	46,787	6,639	7,701
Transportation	13,178	2,067	15,075	39,658
Banking fees	-	180	-	-
Special event expenses - food and venue	-	-	-	-
Grant writing fees	-	-	-	-
Depreciation	92,118	87,802	2,272	-
Accounting	-	3,500	-	-
Total operating expenses	1,962,594	1,543,651	481,850	618,553
Direct benefit to donors: Food and entertainment expenses	-	-	-	-
TOTAL EXPENSES	\$ 1,962,594	\$ 1,543,651	\$ 481,850	\$ 618,553

See accompanying notes.

<u>Total Program Services</u>	<u>Management and General</u>	<u>Fundraising Activities</u>	<u>Total</u>
\$ 2,848,427	\$ 358,939	\$ 270,090	\$ 3,477,456
750,278	73,163	51,348	874,789
29,178	1,281	1,655	32,114
25,914	-	-	25,914
34,514	11,897	1,313	47,724
1,143	1,158	22,353	24,654
47,128	16,461	6,220	69,809
23,497	32,359	2,189	58,045
161,319	171	-	161,490
-	-	9,840	9,840
43,187	8,793	1,944	53,924
83,196	7,440	8,691	99,327
59,705	12,044	563	72,312
120,764	-	-	120,764
122,548	17,585	5,326	145,459
69,978	3,302	818	74,098
180	11,978	-	12,158
-	-	85,059	85,059
-	-	22,800	22,800
182,192	10,602	2,272	195,066
3,500	29,250	-	32,750
4,606,648	596,423	492,481	5,695,552
-	-	72,507	72,507
<u>\$ 4,606,648</u>	<u>\$ 596,423</u>	<u>\$ 564,988</u>	<u>\$ 5,768,059</u>

THE CRISIS NURSERY, INC.
STATEMENTS OF CASH FLOWS
June 30, 2013 and 2012

	<u>2013</u>	<u>2012</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	\$ 245,911	\$ 73,422
Adjustments to reconcile change in net assets to net cash provided in operating activities:		
Depreciation	181,738	195,066
Gain on disposal of assets	-	(21,500)
Change in supplies inventory	(36,778)	(12,217)
Provision for uncollectible promises to give	(21,881)	(32,586)
Promises to give discount	(4,231)	(3,909)
Increase in value of beneficial interest in lead trust	(1,207)	(1,352)
Net realized and unrealized gain on investments	(16,050)	(7,329)
Decrease (increase) in:		
Accounts receivable	29,898	13,612
Promises to give	74,613	185,651
Grants receivable	(395,000)	50,380
Prepaid expenses and other assets	3,707	(34,359)
Increase (decrease) in:		
Accounts payable	15,038	20,069
Accrued expenses	(41,678)	(18,881)
	<u>34,080</u>	<u>406,067</u>
NET CASH PROVIDED BY OPERATING ACTIVITIES		
	<u>34,080</u>	<u>406,067</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds from lead trust	5,000	5,000
Transfer of investments to Crisis Nursery Foundation	-	(125,000)
Proceeds from sale of property and equipment	-	138,162
Purchases of property and equipment	(101,919)	(31,846)
	<u>(96,919)</u>	<u>(13,684)</u>
NET CASH USED BY INVESTING ACTIVITIES		
	<u>(96,919)</u>	<u>(13,684)</u>
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(62,839)	392,383
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	<u>635,249</u>	<u>242,866</u>
CASH AND CASH EQUIVALENTS, END OF YEAR	<u>\$ 572,410</u>	<u>\$ 635,249</u>

See accompanying notes.

THE CRISIS NURSERY, INC.
NOTES TO FINANCIAL STATEMENTS
June 30, 2013 and 2012

NOTE 1 NATURE OF OPERATIONS AND SUMMARY OF SIGNIFICANT ACCOUNTING
POLICIES

Organization

The Crisis Nursery, Inc. (CNI) is an Arizona not-for-profit corporation formed in October 1976. The primary mission of CNI is breaking the cycle of child abuse and neglect by providing shelter care, childcare and support services for children and families needing such services located in the Phoenix, Arizona area. These services are provided in two primary locations, the Shelter (short-term residential services) and The Virginia G. Piper Child and Family Center (Piper Center) (childcare and family support services). Administrative offices are located in a building contiguous to the Piper Center. CNI utilizes both paid employees and volunteer staff.

CNI is related to The Crisis Nursery Foundation (Foundation), a supporting organization to CNI, by three common board members as of June 30, 2013. There were also three common board members as of June 30, 2012. CNI does not exercise control over the Foundation, and the accounts of the Foundation are not included in the accompanying financial statements of CNI. The Foundation benefits CNI and may benefit other charitable organizations.

CNI provides several programs to further its mission of breaking the cycle of child abuse and neglect, including but not limited to the following:

Children's Shelter – Short-term residential and day respite care and comprehensive clinical services are provided to children placed voluntarily by parents due to family crises or placed by Child Protective Services due to abuse or neglect. Nearly 500 children are served by this program each year.

FACES (Families and Children Experiencing Success) – Family support and developmental early childhood education services target pregnant women and families with infants and toddlers in Phoenix zip codes 85006 and 85008 who are living in poverty and present with multiple risk factors. As an Early Head Start grantee, FACES serves over 150 women and families each year through either a home-based, center-based, or combination model of intervention.

Family Foster Care - Under contracts with the Arizona Department of Economic Security and the Gila River Indian Community, CNI recruits, trains, supervises and supports family foster homes that care for children ages birth to 17 who have been removed from their birth families due to abuse or neglect. More than 100 children are cared for by our foster families every year.

Family Support – The Central Phoenix Regional Partnership Council developed the family support coordination strategy, and CNI is one of seven organizations funded to provide Family Support Coordination Services in Central Phoenix. Family Support provides services and support coordination to families with at least one child under the age of six that possess complex and multiple needs.

THE CRISIS NURSERY, INC.
NOTES TO FINANCIAL STATEMENTS
June 30, 2013 and 2012

NOTE 1 NATURE OF OPERATIONS AND SUMMARY OF SIGNIFICANT ACCOUNTING
POLICIES (Continued)

Organization (Continued)

Healthy Families - Through a collaborative sub-contract with Southwest Human Development ("SWHD"), CNI's Healthy Families teams provide home visitation and support services to pregnant women and new parents assessed as being at risk for child abuse and neglect. Over 250 families receive services every year. During July 2012, this program was discontinued by CNI and transferred to the direction of SWHD.

Basis of Presentation

The financial statements of CNI have been prepared on the accrual basis of accounting and accordingly reflect all significant receivables, payables and other liabilities.

Cash and Cash Equivalents

For the purpose of the statement of cash flows, CNI considers all highly liquid debt instruments with an original maturity of ninety days or less at date of acquisition to be cash equivalents.

Accounts Receivable

Accounts receivable consist primarily of amounts due from various agencies for contract revenue and are unsecured. Accounts receivable are carried at the outstanding balances less an allowance for doubtful accounts, if applicable. CNI evaluates the collectability of its accounts receivable based on a combination of factors. In circumstances where it is aware of a specific amount where there may be an inability to meet the financial obligation, it records a specific reserve to reduce the amounts recorded to what it believes will be collected. Accounts are charged off against the allowance when they are deemed to be uncollectible. Accounts receivable as of June 30, 2013 and 2012 are considered by management to be fully collectible and, accordingly, an allowance for doubtful accounts has not been provided.

THE CRISIS NURSERY, INC.
NOTES TO FINANCIAL STATEMENTS
June 30, 2013 and 2012

NOTE 1 NATURE OF OPERATIONS AND SUMMARY OF SIGNIFICANT ACCOUNTING
POLICIES (Continued)

Promises to Give and Grants Receivable

Unconditional promises to give and grants receivable are recognized as revenues in the period the promise is received and as assets, decreases of liabilities or expenses depending on the form of the benefits received. Conditional promises to give are recognized when the conditions on which they depend are substantially met. The discounts on those amounts are computed using risk-free interest rates as determined by management applicable to the years in which the promises are received. Amortization of the discounts is included in contributions. In circumstances where it is aware of a specific amount where there may be an inability to meet the financial obligation, CNI records a specific reserve to reduce the amounts recorded to what it believes will be collected. Additionally, CNI reserves a portion of all promises based upon historical uncollectible rates. Promises are charged off against the allowance when they are deemed to be uncollectible. The grants receivable at June 30, 2013 are considered to be fully collectible by management and, accordingly, an allowance for doubtful accounts is not deemed necessary.

Contributed Supplies Inventory

CNI receives a significant amount of contributed supplies inventory to be used for program service needs. These items include clothing, toys and hygiene supplies. These contributed items are initially recorded in the period received at the fair value of the item received and are carried at the lower of cost or market. Cost is determined by the specific identification method.

Fair Value Measurements

A framework for measuring fair value has been established by the Accounting Standards Codification and 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 as follows:

- | | |
|---------|--|
| Level 1 | Inputs to the valuation methodology are unadjusted quoted prices for identical assets or liabilities in active markets that CNI has the ability to access. |
|---------|--|

THE CRISIS NURSERY, INC.
NOTES TO FINANCIAL STATEMENTS
June 30, 2013 and 2012

NOTE 1 NATURE OF OPERATIONS AND SUMMARY OF SIGNIFICANT ACCOUNTING
POLICIES (Continued)

Fair Value Measurements (Continued)

- | | |
|---------|--|
| Level 2 | Inputs to the valuation methodology include: |
| | <ul style="list-style-type: none">• 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. |
| Level 3 | Inputs to the valuation methodology are unobservable and significant to the fair value measurement, and usually reflect CNI's own assumptions about the assumptions that market participants would use in pricing the assets (i.e. real estate valuations, broker quotes). |

The asset's 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 maximize the use of observable inputs and minimize the use of unobservable inputs.

Beneficial Interest in Lead Trust

CNI has an interest in an irrevocable charitable lead trust. The assets are invested and administered by an unrelated trustee. Initial recognition of the lead trust is recorded as a temporarily restricted contribution and as a beneficial interest measured at fair value. The beneficial interest in lead trust is valued using a discounted cash flow analysis including the anticipated annual cash payment. Distributions from the trust reduce the beneficial interest and are reclassifications from temporarily restricted net assets to unrestricted net assets. Changes in carrying value of the trust are recorded as an increase or decrease to the beneficial interest and an adjustment to temporarily restricted net assets.

Investments Held by The Crisis Nursery Foundation

During the year ended June 30, 2012, CNI transferred \$125,000 to the Foundation. CNI specified that the Foundation is to distribute the funds to CNI as it requests the funds. The Foundation has no variance power over the funds. The Foundation has recognized the \$125,000, plus a proportional amount of investment return, as investments held on behalf of CNI.

THE CRISIS NURSERY, INC.
NOTES TO FINANCIAL STATEMENTS
June 30, 2013 and 2012

NOTE 1 NATURE OF OPERATIONS AND SUMMARY OF SIGNIFICANT ACCOUNTING
POLICIES (Continued)

Investments Held by The Crisis Nursery Foundation (Continued)

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. Investment income (including interest and dividends) and realized and unrealized gains and losses are reported in the statements of activities and changes in net assets under support and revenue.

During the years ended June 30, 2013 and 2012, CNI shared proportionately in the investment return on the entire investment portfolio held by the Foundation.

Property and Equipment

Acquisitions of property and equipment in excess of \$5,000 are capitalized. Property and equipment are stated at cost or, if donated, at the approximate fair value at the date of donation. Depreciation of buildings and equipment is calculated using the straight-line method over the estimated useful lives of the respective assets.

Major additions and improvements are capitalized. Maintenance and repairs are expensed as incurred. When assets are retired or otherwise disposed of, the related costs and accumulated depreciation are removed from the accounts and gains and losses are included in operations.

Impairment of Long-Lived Assets

CNI reviews long-lived assets for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Recoverability of assets to be held and used is measured by a comparison of the carrying amount of an asset to future net cash flows expected to be generated by the asset. If such assets are considered to be impaired, the impairment to be recognized is measured by the amount by which the carrying amount of the assets exceeds the fair value of the assets. Assets to be disposed of are reported at the lower of the carrying amount or fair value less costs to sell.

Revenue Recognition

CNI recognizes revenue from contracts, primarily with federal and state agencies, when services are rendered. A receivable is recorded to the extent the revenue earned exceeds payments received.

THE CRISIS NURSERY, INC.
NOTES TO FINANCIAL STATEMENTS
June 30, 2013 and 2012

NOTE 1 NATURE OF OPERATIONS AND SUMMARY OF SIGNIFICANT ACCOUNTING
POLICIES (Continued)

Contributions

Contributions, grants and bequests, including promises to give, are received and recorded as unrestricted, temporarily restricted or permanently restricted support depending on the existence and/or nature of any donor restrictions. When a donor restriction expires (that is, when a stipulated time restriction ends or purpose restriction is accomplished), temporarily or permanently restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets released from restrictions. However, if a restriction is fulfilled in the same time period in which the contribution is received, CNI reports the support as unrestricted.

Functional Allocation of Expenses

The costs of providing the various programs and activities have been summarized on a functional basis in the statement of activities. Accordingly, certain costs have been allocated among the programs and supporting services benefited. The costs are allocated based on square footage, number of employees or actual units utilized and time studies.

Income Tax Status

CNI qualifies as a tax-exempt organization under Section 501(c)(3) of the Internal Revenue Code (IRC), qualifies for the charitable contribution deduction and has been classified as an organization that is not a private foundation. Income determined to be unrelated business taxable income (UBTI) would be subject to income tax.

CNI follows accounting standards for uncertainty in income taxes, which require that tax positions initially need to be recognized in the financial statements when it is more likely-than-not that the positions will not be sustained upon examination by the tax authorities. As of June 30, 2013 and 2012, CNI had no uncertain tax positions that qualify for either recognition or disclosure in the financial statements.

The Organization's federal and state exempt returns are no longer subject to examination by the Internal Revenue Service and the State of Arizona for fiscal years prior to June 30, 2010 and 2009, respectively, generally three to four years after they were filed.

CNI recognizes interest and penalties associated with income tax in operating expenses. During the years ended June 30, 2013 and 2012, CNI did not have any income tax related interest and penalty expense.

THE CRISIS NURSERY, INC.
NOTES TO FINANCIAL STATEMENTS
June 30, 2013 and 2012

NOTE 1 NATURE OF OPERATIONS AND SUMMARY OF SIGNIFICANT ACCOUNTING
POLICIES (Continued)

Management's 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 amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and reported amounts of revenues and expenses during the reporting period. Accordingly, actual results could differ from these estimates.

Date of Management's Review

In preparing these financial statements, CNI has evaluated events and transactions for potential recognition or disclosure through November 5, 2013, the date the financial statements were available to be issued.

NOTE 2 CONCENTRATIONS OF CREDIT RISK

Financial instruments that subject CNI to potential concentrations of credit risk consist principally of cash and cash equivalents, accounts receivable, promises to give, grants receivable and revenues. CNI maintains its cash in bank accounts with financial institutions which at times may exceed federally insured limits. As of June 30, 2013, CNI's bank balances exceeded federally insured limits by \$331,729. CNI has not experienced any losses in such accounts and believes it is not exposed to any significant credit risk on cash balances.

THE CRISIS NURSERY, INC.
NOTES TO FINANCIAL STATEMENTS
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NOTE 2 CONCENTRATIONS OF CREDIT RISK (Continued)

The mix of gross accounts receivable and revenue from various contract sources as of June 30, 2013 is as follows:

	<u>Accounts Receivable</u>	<u>%</u>	<u>Revenue</u>	<u>%</u>
US Department of Health & Human Services - Early Head Start	\$ 60,559	21%	\$ 1,203,523	38%
Gila River Tribal Social Services	50,485	17%	258,695	8%
Arizona Department of Economic Security	138,738	48%	1,208,090	38%
Other	<u>42,175</u>	<u>14%</u>	<u>484,143</u>	<u>16%</u>
	<u>\$ 291,957</u>	<u>100.0%</u>	<u>\$ 3,154,451</u>	<u>100.0%</u>

The mix of gross accounts receivable and revenue from various contract sources as of June 30, 2012 is as follows:

	<u>Accounts Receivable</u>	<u>%</u>	<u>Revenue</u>	<u>%</u>
US Department of Health & Human Services - Early Head Start	\$ 43,430	13%	\$ 1,178,312	33%
Gila River Tribal Social Services	38,570	12%	315,630	9%
SWHD Healthy Families	114,580	36%	660,323	18%
Arizona Department of Economic Security	100,300	31%	867,481	24%
Other	<u>24,975</u>	<u>8%</u>	<u>550,740</u>	<u>16%</u>
	<u>\$ 321,855</u>	<u>100.0%</u>	<u>\$ 3,572,486</u>	<u>100.0%</u>

Promises to give include \$50,000 and \$100,000 from a foundation, which represented 19% and 33% of total net promises to give at June 30, 2013 and 2012, respectively. Grants receivable include \$375,000 from a foundation, which represented 95% of total grants receivable at June 30, 2013. Concentrations of credit risk with respect to promises to give and grants receivable are limited due to the nature of the receivables and the collection history of these types of accounts. CNI requires no collateral on its accounts receivable, grants receivable and promises to give.

THE CRISIS NURSERY, INC.
NOTES TO FINANCIAL STATEMENTS
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NOTE 3 PROMISES TO GIVE

Promises to give consist of the following:

	<u>2013</u>	<u>2012</u>
Receivable in less than one year	\$ 155,013	\$ 165,824
Receivable in two to five years	162,873	222,475
Receivable in years thereafter	<u>20,500</u>	<u>24,700</u>
 Total promises to give	 338,386	 412,999
 Discount to present value	 (9,065)	 (13,296)
Allowance for uncollectible promises	<u>(72,433)</u>	<u>(94,314)</u>
 Net promises to give	 256,888	 305,389
Current portion	<u>(155,013)</u>	<u>(165,824)</u>
 Non-current portion	 <u>\$ 101,875</u>	 <u>\$ 139,565</u>

The estimated cash flows for promises to give were discounted over the collection period using a discount range of .76% - 1.76% to as determined by management.

NOTE 4 BENEFICIAL INTEREST IN LEAD TRUST

CNI is one of several charities that receive cash from a donor at the end of each calendar quarter under a charitable lead trust agreement. CNI's distribution is 11.11% of an annual annuity of \$45,000 (\$1,250 quarterly). The term of the annuity ends December 31, 2019, at which time the remaining assets revert to the donor or the donor's beneficiary. The present value of future cash flows (using a 3.9% discount rate) of \$28,585 and \$32,378 at June 30, 2013 and 2012, respectively, has been recorded as Beneficial Interest in Lead Trust on the statement of financial position.

THE CRISIS NURSERY, INC.
 NOTES TO FINANCIAL STATEMENTS
 June 30, 2013 and 2012

NOTE 5 FAIR VALUE MEASUREMENTS

The following is a summary of the fair value of financial instruments at June 30, 2013:

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Assets measured at fair value on a recurring basis:				
Investments held by the Foundation	\$ -	\$ 148,379	\$ -	\$ 148,379
Beneficial interest in a lead trust	-	-	28,585	28,585
	<u>-</u>	<u>-</u>	<u>28,585</u>	<u>28,585</u>
Total fair value of financial instruments	<u>\$ -</u>	<u>\$ 148,379</u>	<u>\$ 28,585</u>	<u>\$ 176,964</u>

The following is a summary of the fair value of financial instruments at June 30, 2012:

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Assets measured at fair value on a recurring basis:				
Investments held by the Foundation	\$ -	\$ 132,329	\$ -	\$ 132,329
Beneficial interest in a lead trust	-	-	32,378	32,378
	<u>-</u>	<u>-</u>	<u>32,378</u>	<u>32,378</u>
Total fair value of financial instruments	<u>\$ -</u>	<u>\$ 132,329</u>	<u>\$ 32,378</u>	<u>\$ 164,707</u>

Investments held by the Foundation are valued based on observable inputs, which include the fair value of the underlying assets held and the Organization's percentage interest in those investments (Level 2).

THE CRISIS NURSERY, INC.
NOTES TO FINANCIAL STATEMENTS
June 30, 2013 and 2012

NOTE 5 FAIR VALUE MEASUREMENTS (Continued)

The following is a reconciliation of beginning and ending balances of assets measured at fair value on a recurring basis using significant unobservable (Level 3) inputs during the years ended June 30, 2013 and 2012:

	<u>Beneficial Interest in Lead Trust</u>
Balance, June 30, 2011	\$ 36,026
Cash distributions	(5,000)
Change in value	<u>1,352</u>
Balance, June 30, 2012	32,378
Cash distributions	(5,000)
Change in value	<u>1,207</u>
Balance, June 30, 2013	<u><u>\$ 28,585</u></u>

NOTE 6 PROPERTY AND EQUIPMENT

Property and equipment consist of the following as of June 30:

	<u>2013</u>	<u>2012</u>
Land	\$ 190,998	\$ 190,998
Building and improvements	3,944,281	3,842,362
Furniture, equipment and vehicles	<u>849,534</u>	<u>871,555</u>
	4,984,813	4,904,915
Accumulated depreciation and amortization	<u>(2,751,417)</u>	<u>(2,591,700)</u>
	<u><u>\$ 2,233,396</u></u>	<u><u>\$ 2,313,215</u></u>

Depreciation expense was \$181,738 and \$195,066 for the years ended June 30, 2013 and 2012, respectively.

THE CRISIS NURSERY, INC.
 NOTES TO FINANCIAL STATEMENTS
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NOTE 7 RESTRICTED NET ASSETS

Temporarily restricted net assets are restricted by the donor for the following time and/or purpose restrictions:

	<u>2013</u>	<u>2012</u>
Promises to give	\$ 311,929	\$ 399,702
Grants receivable	395,000	-
Special events	-	15,000
Beneficial interest in lead trust	<u>28,585</u>	<u>32,378</u>
Total temporarily restricted net assets	<u>\$ 735,514</u>	<u>\$ 447,080</u>

During the year ended June 30, 2013 and 2012, the net assets released from restriction were primarily due to the passage of time.

NOTE 8 OPERATING LEASES

In August 2011, the Organization entered into a 60-month lease agreement for copier equipment. Minimum future rental payments under this non-cancelable operating lease are as follows:

<u>Years Ending June 30,</u>	
2014	\$ 33,792
2015	33,792
2016	33,792
2017	<u>2,816</u>
	<u>\$ 104,192</u>

Lease expense was \$33,792 and \$30,976 for the years ended June 30, 2013 and 2012, respectively.

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NOTE 9 401(K) PLAN

CNI maintains a 401(k) plan (Plan) for the benefit of its employees. Under the terms of the Plan, CNI may make annual contributions in amounts determined by its Board of Directors. Employer contributions during the years ended June 30, 2013 and 2012 amounted to \$80,161 and \$86,641, respectively.

NOTE 10 RELATED PARTY TRANSACTIONS

The Foundation made contributions of \$500,000 to CNI during the year ended June 30, 2013. There were no contributions from the Foundation to CNI during the year ended June 30, 2012.

Additionally, CNI transferred \$125,000 to the Foundation to be invested as part of their windfall gift acceptance policy during the year ended June 30, 2012.

NOTE 11 CONTINGENCIES

CNI participates in a number of federal and state-assisted grant and contract programs which are subject to financial and compliance audits. Accordingly, CNI's compliance with applicable grant or contract requirements may be determined at some future date. The amount, if any, of expenditures of fees for units of service which may be disallowed by the granting or contracting agencies cannot be determined at this time, although CNI's management expects such amounts, if any, to be immaterial.

