



Phoenix, Arizona

FINANCIAL STATEMENTS

Years Ended June 30, 2014 and 2013







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, 2014 and 2013, 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, 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.

Henry + Horne, LLP

Tempe, Arizona  
October 31, 2014

THE CRISIS NURSERY, INC.  
STATEMENTS OF FINANCIAL POSITION  
June 30, 2014 and 2013

	<u>2014</u>	<u>2013</u>
<b>ASSETS</b>		
Cash and cash equivalents	\$ 743,528	\$ 572,410
Accounts receivable	292,883	291,957
Promises to give, current portion, net	111,586	155,013
Grants receivable	410,000	260,000
Supplies inventory	185,921	216,213
Prepaid expenses and other assets	<u>100,471</u>	<u>68,764</u>
TOTAL CURRENT ASSETS	1,844,389	1,564,357
PROMISES TO GIVE, net of current portion, unamortized discount and allowance for uncollectible promises	139,427	101,875
GRANTS RECEIVABLE, net of current portion	150,000	135,000
BENEFICIAL INTEREST IN TRUSTS	97,772	28,585
INVESTMENTS HELD BY THE CRISIS NURSERY FOUNDATION	174,172	148,379
PROPERTY AND EQUIPMENT, net	<u>2,129,638</u>	<u>2,233,396</u>
TOTAL ASSETS	<u>\$ 4,535,398</u>	<u>\$ 4,211,592</u>
<b>LIABILITIES AND NET ASSETS</b>		
<b>CURRENT LIABILITIES</b>		
Accounts payable	\$ 63,536	\$ 64,144
Accrued expenses	<u>224,273</u>	<u>191,649</u>
TOTAL CURRENT LIABILITIES	<u>287,809</u>	<u>255,793</u>
<b>NET ASSETS</b>		
Unrestricted	3,288,627	3,220,285
Temporarily restricted	<u>958,962</u>	<u>735,514</u>
TOTAL NET ASSETS	<u>4,247,589</u>	<u>3,955,799</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 4,535,398</u>	<u>\$ 4,211,592</u>

See accompanying notes.

THE CRISIS NURSERY, INC.  
STATEMENTS OF ACTIVITIES  
Years Ended June 30, 2014 and 2013

	2014		
	Unrestricted	Temporarily Restricted	Total
REVENUES, SUPPORT AND OTHER INCOME			
Contributions	\$ 701,020	\$ 270,344	\$ 971,364
Special events contributions	778,780	-	778,780
In-kind childcare supplies	161,918	-	161,918
Contract revenue	3,670,665	-	3,670,665
Grants	498,100	475,000	973,100
Change in value of beneficial interest in trust	-	(22,335)	(22,335)
Investment return	25,793	-	25,793
Other income	32,678	-	32,678
Net assets released from restrictions	499,561	(499,561)	-
	<u>6,368,515</u>	<u>223,448</u>	<u>6,591,963</u>
Special events income	253,037	-	253,037
Direct benefit to donors	(86,246)	-	(86,246)
	<u>166,791</u>	<u>-</u>	<u>166,791</u>
TOTAL REVENUES, SUPPORT AND OTHER INCOME	<u>6,535,306</u>	<u>223,448</u>	<u>6,758,754</u>
EXPENSES AND LOSSES			
Program services	<u>5,254,970</u>	<u>-</u>	<u>5,254,970</u>
Supporting services			
Management and general	634,496	-	634,496
Fundraising	560,878	-	560,878
Total supporting services	<u>1,195,374</u>	<u>-</u>	<u>1,195,374</u>
TOTAL EXPENSES BEFORE PROVISION FOR PROMISES TO GIVE	<u>6,450,344</u>	<u>-</u>	<u>6,450,344</u>
Provision for promises to give allowance	16,620	-	16,620
TOTAL EXPENSES AND LOSSES	<u>6,466,964</u>	<u>-</u>	<u>6,466,964</u>
CHANGE IN NET ASSETS	68,342	223,448	291,790
NET ASSETS, BEGINNING OF YEAR	<u>3,220,285</u>	<u>735,514</u>	<u>3,955,799</u>
NET ASSETS, END OF YEAR	<u>\$ 3,288,627</u>	<u>\$ 958,962</u>	<u>\$ 4,247,589</u>

See accompanying notes.

2013

Unrestricted	Temporarily Restricted	Total
\$ 940,202	\$ 112,832	\$ 1,053,034
630,190	-	630,190
254,624	-	254,624
3,154,451	-	3,154,451
455,416	395,000	850,416
-	1,207	1,207
16,050	-	16,050
10,635	-	10,635
220,605	(220,605)	-
5,682,173	288,434	5,970,607
222,916	-	222,916
(101,137)	-	(101,137)
121,779	-	121,779
5,803,952	288,434	6,092,386
4,741,146	-	4,741,146
586,707	-	586,707
518,944	-	518,944
1,105,651	-	1,105,651
5,846,797	-	5,846,797
(322)	-	(322)
5,846,475	-	5,846,475
(42,523)	288,434	245,911
3,262,808	447,080	3,709,888
\$ 3,220,285	\$ 735,514	\$ 3,955,799

THE CRISIS NURSERY, INC.  
STATEMENT OF FUNCTIONAL EXPENSES  
Year Ended June 30, 2014

	Program Services				Total Program Services
	Children's Shelter	FACES	Family Foster Care	Family Support	
Salaries and wages	\$ 1,419,384	\$ 1,352,734	\$ 353,174	\$ 110,663	\$ 3,235,955
Payroll taxes and employee benefits	366,697	341,410	79,046	26,709	813,862
Training, conferences and travel	4,985	30,260	1,964	32	37,241
Program supplies	22,726	57,339	9,335	2,149	91,549
Office and janitorial supplies	16,450	16,858	4,974	199	38,481
Printing and postage	32	29	985	1,473	2,519
Equipment and software	29,557	24,626	9,544	1,460	65,187
IT consulting	15,725	15,385	5,164	425	36,699
In-kind childcare supplies	91,466	65,915	27,519	5,306	190,206
Marketing and design	-	-	-	-	-
Insurance	23,691	23,142	2,144	1,058	50,035
Other	5,772	4,804	50,830	-	61,406
Repairs and maintenance	55,335	54,402	1,638	410	111,785
Food and medications	94,757	76,440	1,047	45	172,289
Telephone and utilities	66,827	56,715	8,444	5,277	137,263
Transportation	9,180	1,715	19,861	1,080	31,836
Banking fees	-	180	-	-	180
Special event expenses - food and venue	-	-	-	-	-
Grant writing fees	-	-	-	-	-
Depreciation	93,604	80,583	2,145	2,145	178,477
Professional services	-	-	-	-	-
<b>Total operating expenses</b>	<b>2,316,188</b>	<b>2,202,537</b>	<b>577,814</b>	<b>158,431</b>	<b>5,254,970</b>
Direct benefit to donors: Food and entertainment expenses	-	-	-	-	-
<b>TOTAL EXPENSES</b>	<b>\$ 2,316,188</b>	<b>\$ 2,202,537</b>	<b>\$ 577,814</b>	<b>\$ 158,431</b>	<b>\$ 5,254,970</b>



<u>Management and General</u>	<u>Fundraising Activities</u>	<u>Total</u>
\$ 386,212	\$ 277,984	\$ 3,900,151
83,387	54,715	951,964
1,496	3,104	41,841
-	-	91,549
12,888	4,039	55,408
1,310	15,138	18,967
20,469	8,504	94,160
21,590	3,655	61,944
-	-	190,206
-	17,107	17,107
7,861	2,144	60,040
10,810	11,555	83,771
10,711	988	123,484
-	-	172,289
15,508	5,514	158,285
3,739	-	35,575
4,107	15,607	19,894
-	136,779	136,779
-	1,900	1,900
6,995	2,145	187,617
<u>47,413</u>	<u>-</u>	<u>47,413</u>
634,496	560,878	6,450,344
-	86,246	86,246
<u>\$ 634,496</u>	<u>\$ 647,124</u>	<u>\$ 6,536,590</u>

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

	Program Services				Total Program Services
	Children's Shelter	FACES	Family Foster Care	Family Support	
Salaries and wages	\$ 1,345,876	\$ 1,100,520	\$ 346,109	\$ 108,212	\$ 2,900,717
Payroll taxes and employee benefits	343,941	280,458	70,835	20,630	715,864
Training, conferences and travel	8,101	33,835	545	129	42,610
Program supplies	24,513	63,892	2,165	1,340	91,910
Office and janitorial supplies	18,840	14,721	2,156	1,154	36,871
Printing and postage	126	138	834	-	1,098
Equipment and software	24,873	21,406	6,432	3,350	56,061
IT consulting	9,903	9,860	3,698	1,594	25,055
In-kind childcare supplies	102,266	65,978	32,805	9,765	210,814
Marketing and design	-	-	-	-	-
Insurance	20,705	19,387	1,874	1,874	43,840
Other	5,577	9,611	63,444	29	78,661
Repairs and maintenance	47,786	29,406	553	558	78,303
Food and medications	74,455	50,207	797	654	126,113
Telephone and utilities	63,730	53,471	7,989	6,541	131,731
Transportation	12,387	2,092	14,024	1,678	30,181
Banking fees	-	180	-	-	180
Special event expenses - food and venue	-	-	-	-	-
Grant writing fees	-	-	-	-	-
Depreciation	90,791	75,802	2,272	2,272	171,137
Professional services	-	-	-	-	-
<b>Total operating expenses</b>	<b>2,193,870</b>	<b>1,830,964</b>	<b>556,532</b>	<b>159,780</b>	<b>4,741,146</b>
Direct benefit to donors: Food and entertainment expenses	-	-	-	-	-
<b>TOTAL EXPENSES</b>	<b>\$ 2,193,870</b>	<b>\$ 1,830,964</b>	<b>\$ 556,532</b>	<b>\$ 159,780</b>	<b>\$ 4,741,146</b>

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

THE CRISIS NURSERY, INC.  
STATEMENTS OF CASH FLOWS  
Years Ended June 30, 2014 and 2013

	<u>2014</u>	<u>2013</u>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Change in net assets	\$ 291,790	\$ 245,911
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation	187,617	181,738
Change in supplies inventory	30,292	(36,778)
Provision for uncollectible promises to give	(7,350)	(21,881)
Promises to give discount	(72)	(4,231)
(Increase) decrease in value of beneficial interest in lead trust	22,335	(1,207)
Unrealized gain on investments held by the Foundation	(25,793)	(16,050)
Decrease (increase) in:		
Accounts receivable	(926)	29,898
Promises to give	13,297	74,613
Grants receivable	(165,000)	(395,000)
Prepaid expenses and other assets	(31,707)	3,707
Beneficial interest in trusts	(91,522)	5,000
Increase (decrease) in:		
Accounts payable	(608)	15,038
Accrued expenses	32,624	(41,678)
	<u>254,977</u>	<u>39,080</u>
<b>NET CASH PROVIDED BY OPERATING ACTIVITIES</b>		
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Purchases of property and equipment	<u>(83,859)</u>	<u>(101,919)</u>
	<u>(83,859)</u>	<u>(101,919)</u>
<b>NET CASH USED BY INVESTING ACTIVITIES</b>		
<b>NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS</b>	171,118	(62,839)
<b>CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR</b>	<u>572,410</u>	<u>635,249</u>
<b>CASH AND CASH EQUIVALENTS, END OF YEAR</b>	<u>\$ 743,528</u>	<u>\$ 572,410</u>

THE CRISIS NURSERY, INC.  
NOTES TO FINANCIAL STATEMENTS  
June 30, 2014 and 2013

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 four common board members as of June 30, 2014. There were also three common board members as of June 30, 2013. 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 300 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, toddlers and preschoolers with multiple risk factors present. As an Early Head Start grantee and a 5 Star Quality First early childhood education center, FACES serves over 165 children and families each year through either a home-based or center-based 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 200 children are cared for by our foster families every year.

Family Support – CNI is one of seven organizations who collaborate to provide Family Support Coordination Services to families in Central Phoenix facing complex and multiple needs. The collaborative serves more than 1,100 families every year.

THE CRISIS NURSERY, INC.  
NOTES TO FINANCIAL STATEMENTS  
June 30, 2014 and 2013

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

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, 2014 and 2013 are considered by management to be fully collectible and, accordingly, an allowance for doubtful accounts has not been provided.

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, 2014 and 2013 are considered to be fully collectible by management and, accordingly, an allowance for doubtful accounts is not deemed necessary.

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

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.

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 term (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, 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 CRISIS NURSERY, INC.  
NOTES TO FINANCIAL STATEMENTS  
June 30, 2014 and 2013

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

Fair Value Measurements (Continued)

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 Trusts

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.

CNI also has an interest in two irrevocable charitable remainder unitrusts. Assets received under charitable remainder unitrust agreements are recorded at fair value on the date the agreement is recognized, which CNI has estimated based on the present value of the expected future cash flows of the asset. Upon the death of the beneficiaries, a portion of the remaining principal is to be distributed to the organization.

Investments Held by The Crisis Nursery Foundation

During the year ended June 30, 2012, CNI transferred \$125,000 to the Foundation for the purpose of including the amount in the Foundation's investment pool. 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. During the years ended June 30, 2014 and 2013, CNI shared proportionately in the investment return on the entire investment portfolio held by the Foundation.

This investment held by the foundation is valued at fair market value based on the underlying assets included in the Foundation's investment pool. 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.



THE CRISIS NURSERY, INC.  
NOTES TO FINANCIAL STATEMENTS  
June 30, 2014 and 2013

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

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.

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.

THE CRISIS NURSERY, INC.  
NOTES TO FINANCIAL STATEMENTS  
June 30, 2014 and 2013

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

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, 2014 and 2013, 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, 2011 and 2010, 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, 2014 and 2013, CNI did not have any income tax related interest and penalty expense.

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 October 31, 2014, the date the financial statements were available to be issued.

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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, 2014 and 2013, CNI's bank balances exceeded federally insured limits by \$500,966 and \$331,729, respectively. CNI has not experienced any losses in such accounts and believes it is not exposed to any significant credit risk on cash balances.

The mix of gross accounts receivable and revenue from various contract sources as of June 30, 2014 is as follows:

	Accounts Receivable	%	Revenue	%
US Department of Health & Human Services - Early Head Start	\$ 70,325	21%	\$ 1,179,244	38%
Gila River Tribal Social Services	17,250	17%	220,770	8%
Arizona Department of Economic Security	157,465	48%	1,618,374	38%
Other	47,843	14%	652,277	16%
	<u>\$ 292,883</u>	<u>100.0%</u>	<u>\$ 3,670,665</u>	<u>100.0%</u>

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

	Accounts Receivable	%	Revenue	%
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	42,175	14%	484,143	16%
	<u>\$ 291,957</u>	<u>100.0%</u>	<u>\$ 3,154,451</u>	<u>100.0%</u>

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NOTE 2 CONCENTRATIONS OF CREDIT RISK (Continued)

Promises to give at June 30, 2013, include \$50,000 from a foundation, which represented 19% of total net promises to give at June 30, 2013. Grants receivable include \$550,000 and \$375,000 from a foundation, which represented 98% and 95% of total grants receivable at June 30, 2014 and 2013, respectively. 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.

NOTE 3 PROMISES TO GIVE

Promises to give consist of the following:

	<u>2014</u>	<u>2013</u>
Receivable in less than one year	\$ 111,586	\$ 155,013
Receivable in two to five years	196,303	162,873
Receivable in years thereafter	<u>17,200</u>	<u>20,500</u>
Total promises to give	325,089	338,386
Discount to present value	(8,993)	(9,065)
Allowance for uncollectible promises	<u>(65,083)</u>	<u>(72,433)</u>
Net promises to give	251,013	256,888
Current portion	<u>(111,586)</u>	<u>(155,013)</u>
Non-current portion	<u>\$ 139,427</u>	<u>\$ 101,875</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.

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NOTE 4 BENEFICIAL INTEREST IN TRUSTS

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 was scheduled to end December 31, 2019, at which time the remaining assets revert to the donor or the donor's beneficiary. However, CNI has received notification that the trust will be terminated during the year ending June 30, 2015. The present value of future cash flows (using a 3.9% discount rate) of \$2,500 and \$28,585 at June 30, 2014 and 2013, respectively, has been included in Beneficial Interest in Trusts on the statement of financial position.

CNI is a beneficiary of the remainder interest of two charitable remainder unitrust funds, which are held by third party trustees. The trustees make distributions to the income beneficiaries based upon the terms of the trust agreement with the donors. Under the agreements, CNI is to receive the remainder of the trust assets upon the death of the donors. CNI has recorded its beneficial interest in these trust funds at the net present value of the estimated future amounts to be received using a discount rate of 5.25%. The present value of the beneficial interest in charitable remainder trusts of \$95,272 at June 30, 2014 has been included in Beneficial Interest in Trusts on the statement of financial position.

NOTE 5 FAIR VALUE MEASUREMENTS

The following is a summary of the fair value of financial instruments at June 30, 2014:

	<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	\$ -	\$ 174,172	\$ -	\$ 174,172
Beneficial interest in trusts	<u>-</u>	<u>-</u>	<u>97,772</u>	<u>97,772</u>
Total fair value of financial instruments	<u>\$ -</u>	<u>\$ 174,172</u>	<u>\$ 97,772</u>	<u>\$ 271,944</u>

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NOTE 5 FAIR VALUE MEASUREMENTS (Continued)

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 trusts	-	-	28,585	28,585
Total fair value of financial instruments	<u>\$ -</u>	<u>\$ 148,379</u>	<u>\$ 28,585</u>	<u>\$ 176,964</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). Beneficial interest in trusts are valued based on expected future cash flows discounted to present value.

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, 2014 and 2013:

	<u>Beneficial Interest in Trusts</u>
Balance, June 30, 2012	\$ 32,378
Cash distributions	(5,000)
Change in value	<u>1,207</u>
Balance, June 30, 2013	28,585
Cash distributions	(3,750)
Change in value	<u>72,937</u>
Balance, June 30, 2014	<u>\$ 97,772</u>

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NOTE 6 PROPERTY AND EQUIPMENT

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

	<u>2014</u>	<u>2013</u>
Land	\$ 190,998	\$ 190,998
Building and improvements	3,959,505	3,944,281
Furniture, equipment and vehicles	<u>857,759</u>	<u>849,534</u>
	5,008,262	4,984,813
Accumulated depreciation and amortization	<u>(2,878,624)</u>	<u>(2,751,417)</u>
	<u>\$ 2,129,638</u>	<u>\$ 2,233,396</u>

Depreciation expense was \$187,617 and \$181,738 for the years ended June 30, 2014 and 2013, respectively.

NOTE 7 RESTRICTED NET ASSETS

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

	<u>2014</u>	<u>2013</u>
Promises to give	\$ 301,190	\$ 311,929
Grants receivable	560,000	395,000
Beneficial interest in trusts	<u>97,772</u>	<u>28,585</u>
Total temporarily restricted net assets	<u>\$ 958,962</u>	<u>\$ 735,514</u>

During the years ended June 30, 2014 and 2013, the net assets released from restriction were primarily due to the passage of time.

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NOTE 8 OPERATING LEASES

In August 2011, the Organization entered into a lease agreement for copier equipment, expiring in July 2016. Minimum future rental payments under this non-cancelable operating lease are as follows:

<u>Years Ending June 30,</u>	
2015	\$ 33,792
2016	33,792
2017	<u>2,816</u>
	<u>\$ 70,400</u>

Lease expense was \$42,402 and \$37,878 for the years ended June 30, 2014 and 2013, respectively.

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, 2014 and 2013 amounted to \$117,250 and \$80,161, respectively.

NOTE 10 RELATED PARTY TRANSACTIONS

The Foundation made contributions of \$250,000 and \$500,000 to CNI during the years ended June 30, 2014 and 2013, respectively.

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.



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NOTE 12 SUBSEQUENT EVENT

Subsequent to June 30, 2014, the boards of directors of CNI and Child Crisis Center have announced their intent to merge operations during fiscal year 2015. Both organizations have similar programs and missions with a long history of collaboration. The merged entity will leverage the strengths of both organizations to create a new agency that is committed to improve outcomes, increase operational efficiencies, and provide a stronger voice for vulnerable children and families throughout the Valley. There were no material transactions between CNI and Child Crisis Center in the year ended June 30, 2014.