

**CHILDREN AND FAMILY SERVICES CENTER, INC. AND
SUBSIDIARY**

CONSOLIDATED FINANCIAL STATEMENTS

YEARS ENDED JUNE 30, 2019 AND 2018



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INDEPENDENT AUDITORS' REPORT

Board of Directors
Children and Family Services Center, Inc. and Subsidiary
Charlotte, North Carolina

We have audited the accompanying consolidated financial statements of Children and Family Services Center, Inc. and Subsidiary (the Center), which comprise the consolidated statements of financial position as of June 30, 2019 and 2018, and the related consolidated statements of activities, functional expenses, and cash flows for the years then ended, and the related notes to the consolidated financial statements.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of consolidated 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 consolidated 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 consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the consolidated 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 consolidated 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 consolidated financial statements.

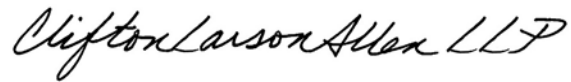
We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of the Center as of June 30, 2019 and 2018, and the changes in their net assets and their cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Effect of Adopting New Accounting Standard

As described in Note 2, the Center adopted the Financial Accounting Standards Board (FASB) Accounting Standards Update (ASU) 2016-14, *Not-For-Profit Entities* (Topic 958): *Presentation of Financial Statements of Not-For-Profit Entities*. Accordingly, the accounting change has been retrospectively applied to prior periods presented as if the policy had always been used. Our opinion is not modified with respect to that matter.



Charlotte, North Carolina
November 13, 2019

CHILDREN AND FAMILY SERVICES CENTER, INC. AND SUBSIDIARY
CONSOLIDATED STATEMENT OF FINANCIAL POSITION
JUNE 30, 2019

	Without Donor Restrictions	With Donor Restrictions	Total
ASSETS			
CURRENT ASSETS			
Cash and Cash Equivalents	\$ 2,383,656	\$ 180,989	\$ 2,564,645
Accounts Receivable	139,382	-	139,382
Deferred Rent Receivable	43,481	-	43,481
Other Receivables and Prepaid Assets	111,127	-	111,127
Bargain Use of Land	-	16,800	16,800
Total Current Assets	2,677,646	197,789	2,875,435
PROPERTY AND EQUIPMENT, NET	7,610,261	-	7,610,261
LONG-TERM ASSETS			
Accounts Receivable, Net of Current Portion	19,271	-	19,271
Deferred Rent Receivable, Net of Current Portion	116,277	-	116,277
Utility and Tenants Deposits and Other	10,124	-	10,124
Bargain Use of Land, Net of Current Portion	-	543,200	543,200
Total Long-Term Assets	145,672	543,200	688,872
Total Assets	\$ 10,433,579	\$ 740,989	\$ 11,174,568
LIABILITIES AND NET ASSETS			
CURRENT LIABILITIES			
Accounts Payable	\$ 121,955	\$ -	\$ 121,955
Current Portion of Notes Payable	195,090	-	195,090
Other Liabilities	107,566	-	107,566
Total Current Liabilities	424,611	-	424,611
LONG-TERM LIABILITIES			
Notes Payable, Net of Current Portion and Debt Issuance Costs	931,160	-	931,160
Tenant Security Deposits and Other	112,028	-	112,028
Total Long-Term Liabilities	1,043,188	-	1,043,188
Total Liabilities	1,467,799	-	1,467,799
Total Net Assets	8,965,780	740,989	9,706,769
Total Liabilities and Net Assets	\$ 10,433,579	\$ 740,989	\$ 11,174,568

See accompanying Notes to Consolidated Financial Statements.

CHILDREN AND FAMILY SERVICES CENTER, INC. AND SUBSIDIARY
CONSOLIDATED STATEMENT OF FINANCIAL POSITION
JUNE 30, 2018

	Without Donor Restrictions	With Donor Restrictions	Total
ASSETS			
CURRENT ASSETS			
Cash and Cash Equivalents	\$ 2,019,123	\$ 107,492	\$ 2,126,615
Accounts Receivable	43,065	-	43,065
Deferred Rent Receivable	37,060	-	37,060
Other Receivables and Prepaid Assets	132,881	-	132,881
Bargain Use of Land	-	16,800	16,800
Total Current Assets	2,232,129	124,292	2,356,421
PROPERTY AND EQUIPMENT, NET	7,824,536	-	7,824,536
LONG-TERM ASSETS			
Accounts Receivable, Net of Current Portion	5,833	-	5,833
Deferred Rent Receivable, Net of Current Portion	131,818	-	131,818
Utility and Tenants Deposits and Other	8,230	-	8,230
Bargain Use of Land, Net of Current Portion	-	560,000	560,000
Total Long-Term Assets	145,881	560,000	705,881
Total Assets	\$ 10,202,546	\$ 684,292	\$ 10,886,838
LIABILITIES AND NET ASSETS			
CURRENT LIABILITIES			
Accounts Payable	\$ 105,698	\$ -	\$ 105,698
Current Portion of Notes Payable	188,046	-	188,046
Other Liabilities	91,660	-	91,660
Total Current Liabilities	385,404	-	385,404
LONG-TERM LIABILITIES			
Notes Payable, Net of Current Portion and Debt Issuance Costs	1,123,633	-	1,123,633
Tenant Security Deposits and Other	162,410	-	162,410
Total Long-Term Liabilities	1,286,043	-	1,286,043
Total Liabilities	1,671,447	-	1,671,447
Total Net Assets	8,531,099	684,292	9,215,391
Total Liabilities and Net Assets	\$ 10,202,546	\$ 684,292	\$ 10,886,838

See accompanying Notes to Consolidated Financial Statements.

**CHILDREN AND FAMILY SERVICES CENTER, INC. AND SUBSIDIARY
CONSOLIDATED STATEMENT OF ACTIVITIES
YEAR ENDED JUNE 30, 2019**

	Without Donor Restrictions	With Donor Restrictions	Total
RENTAL ACTIVITY			
Member Agency Tenants	\$ 2,769,475	\$ -	\$ 2,769,475
Other Tenants	268,685	-	268,685
Technical Support Income	164,557	-	164,557
Member Agency Tenants Computer Lease Income	94,479	-	94,479
	<u>3,297,196</u>	<u>-</u>	<u>3,297,196</u>
SHARED SERVICES	1,130,274	-	1,130,274
SUPPORT AND OTHER			
Contributions	7,728	730,710	738,438
In-kind Contributions	22,966	-	22,966
Other	27,927	-	27,927
Interest and Dividend Income	15,038	-	15,038
	<u>4,501,129</u>	<u>730,710</u>	<u>5,231,839</u>
Net Assets Released from Restrictions Satisfaction of Purpose Restrictions	674,013	(674,013)	-
	<u>5,175,142</u>	<u>56,697</u>	<u>5,231,839</u>
EXPENSES			
Program Services			
Building	2,325,464	-	2,325,464
Collaboration	1,661,771	-	1,661,771
Fiscal Sponsorships	681,688	-	681,688
	<u>4,668,923</u>	<u>-</u>	<u>4,668,923</u>
Supporting Services			
Management and General	71,538	-	71,538
	<u>4,740,461</u>	<u>-</u>	<u>4,740,461</u>
CHANGE IN NET ASSETS	434,681	56,697	491,378
Net Assets - Beginning of Year	8,531,099	684,292	9,215,391
NET ASSETS - END OF YEAR	<u>\$ 8,965,780</u>	<u>\$ 740,989</u>	<u>\$ 9,706,769</u>

See accompanying Notes to Consolidated Financial Statements.

CHILDREN AND FAMILY SERVICES CENTER, INC. AND SUBSIDIARY
CONSOLIDATED STATEMENT OF ACTIVITIES
YEAR ENDED JUNE 30, 2018

	Without Donor Restrictions	With Donor Restrictions	Total
RENTAL ACTIVITY			
Member Agency Tenants	\$ 2,409,830	\$ -	\$ 2,409,830
Other Tenants	274,366	-	274,366
Technical Support Income	163,857	-	163,857
Member Agency Tenants Computer Lease Income	90,570	-	90,570
	<u>2,938,623</u>	<u>-</u>	<u>2,938,623</u>
SHARED SERVICES	914,946	-	914,946
SUPPORT AND OTHER			
Contributions	-	235,447	235,447
Special Events (Net of Direct Costs of \$54)	1,857	-	1,857
In-kind Contributions	42,153	-	42,153
Other	32,375	-	32,375
Interest and Dividend Income	4,127	-	4,127
	<u>3,934,081</u>	<u>235,447</u>	<u>4,169,528</u>
Net Assets Released from Restrictions Satisfaction of Purpose Restrictions	144,755	(144,755)	-
	<u>4,078,836</u>	<u>90,692</u>	<u>4,169,528</u>
EXPENSES			
Program Services			
Building	2,083,376	-	2,083,376
Collaboration	1,598,253	-	1,598,253
Fiscal Sponsorships	137,852	-	137,852
	<u>3,819,481</u>	<u>-</u>	<u>3,819,481</u>
Supporting Services			
Management and General	39,643	-	39,643
	<u>3,859,124</u>	<u>-</u>	<u>3,859,124</u>
CHANGE IN NET ASSETS	219,712	90,692	310,404
Net Assets - Beginning of Year	8,311,387	593,600	8,904,987
NET ASSETS - END OF YEAR	<u>\$ 8,531,099</u>	<u>\$ 684,292</u>	<u>\$ 9,215,391</u>

See accompanying Notes to Consolidated Financial Statements.

CHILDREN AND FAMILY SERVICES CENTER, INC. AND SUBSIDIARY
CONSOLIDATED STATEMENT OF FUNCTIONAL EXPENSES
YEAR ENDED JUNE 30, 2019

	Program Services			Totals	Management and General	Totals 2019
	Building	Collaboration	Fiscal Sponsorships			
Personnel - Wages, Taxes, and Benefits	\$ 76,587	\$ 1,332,944	\$ 13,462	\$ 1,422,993	\$ 35,172	\$ 1,458,165
Professional Services - Finance and Accounting	-	51,806	240	52,046	13,220	65,266
Professional Services - Human Resources and Other	1,159	49,916	4,077	55,152	501	55,653
Professional Services - Legal (In-kind \$7,976)	5,151	2,825	-	7,976	-	7,976
Office Expense (In-kind \$14,990)	6,641	18,728	-	25,369	3,916	29,285
Information Technology	65	108,087	-	108,152	-	108,152
Occupancy	600,035	-	-	600,035	-	600,035
Interest	49,776	-	-	49,776	-	49,776
Travel	-	81	-	81	-	81
Conferences, Meetings, Training	1,086	9,011	-	10,097	-	10,097
Depreciation and Amortization	330,201	60,377	814	391,392	-	391,392
Insurance	1,131	19,424	-	20,555	18,640	39,195
Dues and Memberships	302	4,966	-	5,268	89	5,357
Communications and Public Awareness	-	3,069	-	3,069	-	3,069
Program Support	-	537	663,095	663,632	-	663,632
Rent Credits to Member Agencies	1,253,330	-	-	1,253,330	-	1,253,330
	<u>\$ 2,325,464</u>	<u>\$ 1,661,771</u>	<u>\$ 681,688</u>	<u>\$ 4,668,923</u>	<u>\$ 71,538</u>	<u>\$ 4,740,461</u>

See accompanying Notes to Consolidated Financial Statements.

CHILDREN AND FAMILY SERVICES CENTER, INC. AND SUBSIDIARY
CONSOLIDATED STATEMENT OF FUNCTIONAL EXPENSES
YEAR ENDED JUNE 30, 2018

	Program Services				Management and General	Totals 2018
	Building	Collaboration	Fiscal Sponsorships	Totals		
Personnel - Wages, Taxes, and Benefits	\$ 84,213	\$ 1,242,131	\$ 12,627	\$ 1,338,971	\$ 1,863	\$ 1,340,834
Professional Services - Finance and Accounting	364	44,447	2,187	46,998	11,529	58,527
Professional Services - Human Resources and Other	-	45,337	6,340	51,677	285	51,962
Professional Services - Legal (In-kind \$25,328)	-	25,328	-	25,328	-	25,328
Office Expense (In-kind \$16,825)	11,403	24,648	-	36,051	2,735	38,786
Information Technology	-	114,805	-	114,805	-	114,805
Occupancy	560,941	-	-	560,941	-	560,941
Interest	68,674	-	-	68,674	-	68,674
Conferences, Meetings, Training	1,138	7,779	100	9,017	-	9,017
Depreciation and Amortization	306,601	70,615	-	377,216	-	377,216
Insurance	-	17,405	-	17,405	23,029	40,434
Dues and Memberships	374	4,150	-	4,524	202	4,726
Communications and Public Awareness	-	1,608	-	1,608	-	1,608
Program Support	-	-	116,598	116,598	-	116,598
Rent Credits to Member Agencies	1,049,668	-	-	1,049,668	-	1,049,668
	<u>\$ 2,083,376</u>	<u>\$ 1,598,253</u>	<u>\$ 137,852</u>	<u>\$ 3,819,481</u>	<u>\$ 39,643</u>	<u>\$ 3,859,124</u>

See accompanying Notes to Consolidated Financial Statements.

CHILDREN AND FAMILY SERVICES CENTER, INC. AND SUBSIDIARY
CONSOLIDATED STATEMENTS OF CASH FLOWS
YEARS ENDED JUNE 30, 2019 AND 2018

	2019	2018
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in Net Assets	\$ 491,378	\$ 310,404
Adjustments to Reconcile Change in Net Assets to Net Cash Provided by Operating Activities:		
Depreciation	368,953	356,444
Amortization	16,800	16,800
Amortization - Lease Commission	3,022	3,972
Amortization - Debt Issuance Costs	2,617	8,714
(Increase) Decrease in Accounts Receivable and Deferred Rent Receivable	(100,635)	69,996
(Increase) Decrease in Other Receivables and Prepaid Assets	18,732	(34,721)
(Increase) in Other Assets	-	(154)
(Increase) Decrease in Tenant Security Deposits and Other	(52,276)	144,310
Increase (Decrease) in Accounts Payable and Other Liabilities	32,163	(176,317)
Net Cash Provided by Operating Activities	780,754	699,448
 CASH FLOWS FROM INVESTING ACTIVITIES		
Purchases of Property and Equipment	(154,678)	(521,872)
Net Cash Used in Investing Activities	(154,678)	(521,872)
 CASH FLOWS FROM FINANCING ACTIVITIES		
Payments on Notes Payable	(188,046)	(135,912)
Payment of Financing Costs	-	(18,322)
Net Cash Used in Financing Activities	(188,046)	(154,234)
 NET INCREASE IN CASH AND CASH EQUIVALENTS	438,030	23,342
Cash and Cash Equivalents - Beginning of Year	2,126,615	2,103,273
 CASH AND CASH EQUIVALENTS - END OF YEAR	\$ 2,564,645	\$ 2,126,615
 SUPPLEMENTARY INFORMATION		
Cash Paid for Interest	\$ 49,776	\$ 59,960

See accompanying Notes to Consolidated Financial Statements.

CHILDREN AND FAMILY SERVICES CENTER, INC. AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2019 AND 2018

NOTE 1 ORGANIZATION

Children and Family Services Center, Inc. and its wholly-owned subsidiary, CFSC Shared Services, LLC (together, the Center) are private not-for-profit enterprises which operate an office building with approximately 100,000 square feet (the Carol Grotnes Belk Children and Family Services Center). The building is for the principal use of eleven not-for-profit member agencies who lease approximately 78% of the available space. Other for-profit, non-profit, and governmental tenants also lease space in the building. The Center provides the following services:

- Building - Rental services to all tenants with the full range of services normally associated with commercial office space. In addition, member agencies are provided affordable office space at below market rates as well as meeting space and conference rooms.
- Collaboration - Collaborative Services to member agencies allowing for efficiencies in the sharing of administration services including technology and technology support, human resources and health, welfare and retirement benefits, and finance and accounting. Moreover, programmatic collaboration is facilitated and supported.
- Fiscal Sponsorships - The Center provides fiscal sponsorship services to unincorporated groups whose missions and causes are aligned with the Center's mission. Fiscal Sponsorship allows individuals and groups to organize around societal concerns, conduct charitable activities, and receive tax-exempt grants and donations without building a full organizational infrastructure or receiving a formal 501(c)(3) nonprofit status from the Internal Revenue Service. This enhances the Center's, as well as, the nonprofit sector's flexibility, efficiency, effectiveness, and innovation.

In the event the building is disposed of at any point in the future, any net proceeds, after settlement of all liabilities, are to be distributed to a 501(c)(3) organization qualifying under Section 170(c)(2) of the Internal Revenue Code. Should this fail to occur, any net proceeds are to be distributed to governmental agencies as appropriate for a public purpose.

The member agencies are not-for-profit organizations who serve different needs of similar clients. These agencies came together with the Center to form synergies in the delivery of their respective services. As member agencies, they receive rent credits and services not found in normal tenant arrangements. In addition, member agencies have representation on the Board of Directors of the Center.

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Principles of Consolidation

The consolidated financial statements include the accounts of Children and Family Services Center, Inc. and its wholly-owned subsidiary, CFSC Shared Services, LLC, which was organized as a North Carolina Limited Liability Company on September 25, 2008. All significant inter-organizational transactions have been eliminated in consolidation.

CHILDREN AND FAMILY SERVICES CENTER, INC. AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2019 AND 2018

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Consolidated Financial Statement Presentation

The accompanying consolidated financial statements have been prepared on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America. Net assets and revenues, expenses, gains and losses are classified based on the existence or absence of donor-imposed restrictions as follows:

Net Assets Without Donor Restrictions – Net assets that are not subject to donor-imposed stipulations.

Net Assets With Donor Restrictions – Net assets subject to donor-imposed stipulations that may or will be met, either by actions of the Center and/or the passage of time.

Revenues are reported as increases in net assets without donor restrictions unless the use of the related assets is limited by donor-imposed stipulations. Expenses are reported as decreases in net assets without donor restrictions.

Use of Estimates

The preparation of the consolidated financial statements in conformity with U.S. generally accepted accounting principles 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 consolidated financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Contributions and Support

Contributions received are recorded as net assets without donor restrictions and net assets with donor restrictions depending on the existence and/or nature of any donor-imposed stipulations. All donor-restricted support is reported as an increase in net assets with donor restrictions depending on the nature of the restriction. When a restriction expires (that is, when a stipulated time restriction ends or purpose restriction is accomplished), net assets with donor restrictions are reclassified to net assets without donor restrictions and reported in the consolidated statements of activities as net assets released from restrictions.

Grants and Purchased Services

Grants are not recognized as support until such time as the conditions are substantially met or the likelihood of not meeting the conditions is deemed remote. Purchased service and cost-reimbursement contracts are recognized as support and receivables when the service has been performed.

CHILDREN AND FAMILY SERVICES CENTER, INC. AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2019 AND 2018

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Income Taxes

Children and Family Services Center, Inc. is a not-for-profit corporation exempt from income taxes under Section 501(c)(3) of the Internal Revenue Code and is not classified as a private foundation. CFSC Shared Services, LLC is a single-member Limited Liability Company which does not have separate tax reporting status. Effective January 1, 2018, the Center was required to pay a tax on unrelated business income derived from parking benefits provided to its employees. At June 30, 2018, the Center recorded a tax liability of approximately \$1,000. At June 30, 2019, there was no recorded tax liability.

The Center's income tax returns are subject to review and examination by federal, state, and local authorities. The Center is not aware of any activities that would jeopardize its tax-exempt status.

Generally accepted accounting principles require the Center to recognize a tax benefit or expense from an uncertain tax position only if it is more likely than not that the tax position will be sustained on examination by the tax authorities, based on the technical merits of the position. Management believes the Center has appropriate support for any tax positions taken, and as such, does not have any uncertain tax positions that are material to the consolidated financial statements.

Cash and Cash Equivalents

Funds invested on a daily basis in highly liquid instruments having immediate availability are classified as cash and cash equivalents for purposes of the consolidated statements of cash flows, which are presented on the indirect method. The Center maintains bank accounts at various financial institutions covered by the FDIC. At times throughout the year, the Center may maintain bank account balances in excess of the FDIC insured limit; however, management believes they are not exposed to any significant cash credit risk.

Accounts Receivable

Accounts receivable consist of amounts due from third parties as of June 30, 2019 and 2018 and are presented at its net realizable value. No allowance for bad debt has been provided.

Property and Equipment

Property and equipment with a value of \$1,000 or more is recorded at cost if purchased or estimated fair market value if donated. Costs that improve or extend the useful lives of assets are capitalized. Amounts paid for maintenance and repairs are expensed as incurred. When property and equipment are retired, their costs and related allowances for depreciation are removed from the accounts. Any resulting gains or losses are recognized in the consolidated statements of activities.

CHILDREN AND FAMILY SERVICES CENTER, INC. AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2019 AND 2018

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Property and Equipment (Continued)

Depreciation is computed by the straight-line method over the shorter of the estimated economic life or lease term for the respective asset held, which are as follows:

Building and Components	5 – 50 Years
Furniture, Fixtures, and Equipment	3 – 7 Years

Depreciation expense was approximately \$369,000 and \$356,000 for the years ended June 30, 2019 and 2018, respectively.

Deferred Rent Revenue

Deferred rent revenue included in other liabilities on the consolidated statements of financial position consists of rent payments which have been prepaid by tenants. These amounts will be recognized as revenue in the period in which they are earned.

Debt Issuance Costs

The Center presents debt issuance costs as a direct deduction from the face amount of the related borrowings, amortizes debt issuance costs using the effective interest method over the life of the debt, and records the amortization as a component of depreciation and amortization.

Donated Materials and Services

Donated materials and equipment, when significant, are reflected as contributions at estimated fair value at the time of receipt. Donated services, when significant and measurable as to value, are reflected as contributions when provided. Volunteers, including officers and directors of the Center, donate their time in program, support and fundraising. However, no amounts have been reflected in the consolidated financial statements for these services as they do not meet the criteria for recognition.

The Center rents office space to eleven nonprofit member agencies at a rate below market. The difference in the rent at market rate and the actual rent charged is reflected as donated use of facilities in Member Agency Tenants Revenue and Building Program Expenses on the Center's consolidated statements of activities. For the years ended June 30, 2019 and 2018, these amounts were calculated using the difference between the office space rent at the estimated market rate and the actual rent charged for the office space (excluding the amount charged for technology and collaborative services) and were approximately \$1,253,000 and \$1,050,000, respectively.

CHILDREN AND FAMILY SERVICES CENTER, INC. AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2019 AND 2018

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Functional Allocation of Expenses

Expenses not associated with a specific functional classification are allocated among the various classifications based upon the natural classification of each functional classification (program, management and general, and fundraising) by the Center. Certain jointly incurred costs are allocated to the various functional classifications based on management's estimate of how such costs were utilized.

Subsequent Events

In preparing these consolidated financial statements, the Center has evaluated events and transactions for potential recognition or disclosure through November 13, 2019, the date the consolidated financial statements were available to be issued.

Adoption of New Accounting Principle

The Center adopted the provisions of ASU 2016-14, *Not-for-Profit Entities (Topic 958): Presentation of Financial Statements of Not-for-Profit Entities*, during the year ended June 30, 2019. The implementation of this standard resulted in certain changes to the consolidated financial statement presentation including the presentation of only two classes of net assets, rather than three classes historically presented, and additional disclosures surrounding net assets, liquidity, and availability.

NOTE 3 PROPERTY AND EQUIPMENT, NET

Property and equipment are summarized as follows at June 30:

	2019	2018
Buildings and Components	\$ 10,993,889	\$ 10,964,042
Furnitures, Fixtures, and Equipment	2,385,249	2,261,232
	13,379,138	13,225,274
Less: Accumulated Depreciation	(5,768,877)	(5,400,738)
	\$ 7,610,261	\$ 7,824,536

CHILDREN AND FAMILY SERVICES CENTER, INC. AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2019 AND 2018

NOTE 4 GROUND LEASE ARRANGEMENT

The Center has an operating lease agreement with the City of Charlotte for the land on which its building is constructed (See Note 5). The lease term began January 1, 2003, and expires December 31, 2052. Future minimum lease payments under this agreement are as follows:

Year Ending June 30,	Total
2020	\$ 140,000
2021	140,000
2022	140,000
2023	140,000
2024	140,000
Thereafter	3,990,000
	\$ 4,690,000

Unless extended by the City of Charlotte and the Center, the premises will be transferred to the City of Charlotte upon the termination of the lease.

NOTE 5 BARGAIN USE OF LAND

In 2003, the Center completed its building which is built on land leased from the City of Charlotte (see Note 4). The lease agreement provides for rent at \$140,000 per year (which represented a 41.67% discount from fair market value at inception) for a period of 50 years, expiring December 31, 2052.

The bargain portion of this lease arrangement is made up of the following at June 30, 2019 and 2018:

	2019	2018
Estimated fair value of the bargain use of land, net of present-value discount, using the long-term U.S. Treasury rate at inception of the lease (5.01%), for a period of 50 years, capped so as not to exceed the fair market value of land leased	\$ 833,000	\$ 833,000
Less: Accumulated straight-line amortization at \$16,800 per year, beginning April 1, 2003	(273,000)	(256,200)
	\$ 560,000	\$ 576,800

CHILDREN AND FAMILY SERVICES CENTER, INC. AND SUBSIDIARY
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NOTE 6 NOTES PAYABLE

During the year ended June 30, 2018, the Center modified the terms of their promissory notes (Notes). The Notes now bear an interest rate of 3.95% and expire in October 2024.

The Notes are comprised of the following at June 30, 2019 and 2018:

	2019	2018
Promissory note due October 2024, payable in equal monthly principal installments of \$9,996, including interest at a rate of 3.95%, collateralized by the Center's building	\$ 575,114	\$ 669,963
Promissory note due October 2024, payable in equal monthly principal installments of \$9,822, including interest at a rate of 3.95%, collateralized by the Center's building	565,096	658,293
	1,140,210	1,328,256
Less: Current Portion	(195,090)	(188,046)
Less: Debt Issuance Costs	(13,960)	(16,577)
Total Notes Payable, Net	\$ 931,160	\$ 1,123,633

Annual principal payments due on the Notes are as follows:

Year Ending June 30,	Notes
2020	\$ 195,090
2021	203,160
2022	211,448
2023	220,073
2024	229,033
Thereafter	81,406
	\$ 1,140,210

NOTE 7 REVOLVING CREDIT LINE

In February 2013, the Center entered into a line of credit agreement in the amount of \$250,000 with a financial institution for 3 years, which was renewed in November 2015, and any future borrowings will become due and payable on December 8, 2018 unless it is renewed prior to that date. In December 2018, the Center extended the maturity date to December 18, 2021, with the interest rate on the line of credit is equal to the Wall Street Journal Prime Rate plus 0.5% (with a floor of 3.5%) and is collateralized by the Center's building. The rate in effect at June 30, 2019 and 2018 was 6.0% and 4.5%, respectively. The Center had no amounts outstanding on its revolving line of credit as of June 30, 2019 and 2018.

CHILDREN AND FAMILY SERVICES CENTER, INC. AND SUBSIDIARY
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NOTE 8 NET ASSETS WITH DONOR RESTRICTIONS

Net assets with donor restrictions represent the amount of the bargain use of land from the City of Charlotte and contributions for fiscal sponsorships. Net assets with donor restrictions consisted of the following at June 30, 2019 and 2018:

	<u>2019</u>	<u>2018</u>
Purpose Restricted:		
Bargain Use of Land	\$ 560,000	\$ 576,800
Community Building through Art Programs of AboutFace CLT	16,108	26,200
High School Transition Programs of Carolina Youth Coalition	-	55,306
Not-for-Profit Training Programs of Next Stage Consulting	32,844	11,377
Education Programs of Latin American Chamber of Charlotte	720	4,691
Child Abuse Awareness Programs of Meck4Kids	5,873	9,918
A Non Profit Executive Directors Association	323	-
Community Building Through Publishing a Local Newspaper	125,000	-
Other	121	-
	<u>\$ 740,989</u>	<u>\$ 684,292</u>

Net assets released from restrictions consisted of the following for the years ending June 30, 2019 and 2018:

	<u>2019</u>	<u>2018</u>
Purpose Restricted Releases:		
Bargain Use of Land	\$ 16,800	\$ 16,800
Community Building through Art Programs of AboutFace CLT	18,618	36,473
High School Transition Programs of Carolina Youth Coalition	476,121	66,194
Not-for-Profit Training Programs of Next Stage Consulting	51,033	13,623
Bilingual Education Programs of La Escuelita San Marcos	7,981	7,000
Education Programs of Latin American Chamber of Charlotte	4,771	109
Child Abuse Awareness Programs of Meck4Kids	6,085	4,556
A Non Profit Executive Directors Association	9,677	-
Center For International Leadership	82,927	-
	<u>\$ 674,013</u>	<u>\$ 144,755</u>

CHILDREN AND FAMILY SERVICES CENTER, INC. AND SUBSIDIARY
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NOTE 9 TENANT LEASES

The Center has lease agreements with eleven not-for-profit member agencies and other tenants. The aggregate annual rental payments to be received under these agreements subsequent to June 30, 2019, are as follows:

Years Ending June 30,	Member Agency Tenants	Other Tenants	Total
2020	\$ 1,607,474	\$ 221,860	\$ 1,829,334
2021	1,701,044	156,948	1,857,992
2022	1,592,201	18,810	1,611,011
2023	1,338,866	2,700	1,341,566
2024	920,779	-	920,779
Thereafter	3,007,095	-	3,007,095
	<u>\$ 10,167,459</u>	<u>\$ 400,318</u>	<u>\$ 10,567,777</u>

The lease payments can be changed at the Center's discretion. Member agency tenants may renew their leases for three additional ten-year periods, and a fourth period ending December 31, 2052, which is the termination date of the ground lease with the City of Charlotte (See Notes 4 and 5).

NOTE 10 RETIREMENT PLANS

The Center has a defined contribution retirement savings plan (the Plan) which covers all full-time and part-time employees of the Center who meet minimum eligibility requirements. The Plan is subject to the provisions of the Employee Retirement Income Security Act of 1974 (ERISA), as amended.

Each year, participants may contribute up to 85% of their annual compensation on a pre-tax basis not to exceed \$19,000, as well as a catch-up provision that allows participants older than 50 years of age to contribute an additional \$6,000, as specified by the Internal Revenue Service for the calendar year 2019, beginning the first day of the quarter following date of hire. The Center contributes a matching contribution of 100% of the first 1% of base compensation that a participant contributes and 50% of the next 5% that a participant contributes. The Center's contributions to the Plan for the years ended June 30, 2019 and 2018 were approximately \$31,000 and \$29,000, respectively.

On March 9, 2011 the Center established a non-qualified deferred compensation plan (the Deferred Compensation Plan) under section 457(b) of the Internal Revenue Code, for the benefit of a select group of its management or highest compensated employees. The Deferred Compensation Plan was effective retrospectively to January 1, 2011. In connection with the Deferred Compensation Plan, a rabbi trust was established to provide assets to pay all or a portion of the benefits accrued under the Deferred Compensation Plan. As of June 30, 2019 and 2018 there was one participant in the Deferred Compensation Plan each year, although different individuals. The Center's deposits to the trust for the year ended June 30, 2019 were \$1,370. There were no deposits into the trust during the year ended June 30, 2018.

CHILDREN AND FAMILY SERVICES CENTER, INC. AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
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NOTE 11 CONTRIBUTED GOODS AND SERVICES

The contributed goods and services received by the Center for the years ended June 30, 2019 and 2018 are as follows:

	Revenue Recognized	Expense Recognized
Year Ended June 30, 2019		
Legal Services	\$ 7,976	\$ 7,976
Office Furniture and Computer Equipment	14,990	14,990
	\$ 22,966	\$ 22,966
 Year Ended June 30, 2018		
Legal Services	\$ 25,328	\$ 25,328
Office Furniture and Computer Equipment	16,825	16,825
	\$ 42,153	\$ 42,153

NOTE 12 LIQUIDITY AND AVAILABILITY

The Center has a reserve policy to ensure the stability of the mission, programs, employment, and ongoing operations of the organization. The target minimum of the reserve fund is equal to six months of average operating expenses, plus one year of capital expenditures, and one year of projected principal payments. This policy is aspirational and the reserve goal is meant to be a guideline, not a requirement. The Center receives revenue through rental income and professional services contracts.

The following table reflects the Center's financial assets available within one year of the statements of financial position for general expenditures as of June 30, 2019 and 2018:

	2019	2018
Cash and Cash Equivalents	\$ 2,564,645	\$ 2,126,615
Accounts Receivable	139,382	43,065
Deferred Rent Receivable	43,481	37,060
Other Receivables	12,705	16,993
Total	2,760,213	2,223,733
Less: Net Assets with Donor Restrictions Subject to Expenditure for Specific Purposes	(180,989)	(107,492)
Total Assets Available to Meet Liquidity Needs	\$ 2,579,224	\$ 2,116,241

The Center also has a line of credit, of \$250,000, available to meet short-term needs. See Note 7 for information about the arrangement.

