

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

CONSOLIDATED FINANCIAL STATEMENTS

YEARS ENDED JUNE 30, 2020 AND 2019



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CHILDREN AND FAMILY SERVICES CENTER, INC. AND SUBSIDIARY
TABLE OF CONTENTS
YEARS ENDED JUNE 30, 2020 AND 2019

INDEPENDENT AUDITORS' REPORT	1
CONSOLIDATED FINANCIAL STATEMENTS	
CONSOLIDATED STATEMENT OF FINANCIAL POSITION – JUNE 30, 2020	3
CONSOLIDATED STATEMENT OF FINANCIAL POSITION – JUNE 30, 2019	4
CONSOLIDATED STATEMENT OF ACTIVITIES – YEAR ENDED JUNE 30, 2020	5
CONSOLIDATED STATEMENT OF ACTIVITIES – YEAR ENDED JUNE 30, 2019	6
CONSOLIDATED STATEMENT OF FUNCTIONAL EXPENSES – YEAR ENDED JUNE 30, 2020	7
CONSOLIDATED STATEMENT OF FUNCTIONAL EXPENSES – YEAR ENDED JUNE 30, 2019	8
CONSOLIDATED STATEMENTS OF CASH FLOWS	9
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS	10



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, 2020 and 2019, 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, 2020 and 2019, 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.

Emphasis-of-Matter Regarding Changes in Accounting Principles

As discussed in Note 2 to the consolidated financial statements, Children and Family Services Center, Inc. and Subsidiary has adopted the provisions of Financial Accounting Standards Board Accounting Standards Update 2014-09, *Revenue from Contracts with Customers (Topic 606)* and Financial Accounting Standards Board Accounting Standards Update 2018-08, *Not-for-Profit Entities: Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made (Topic 605)*. Our opinion is not modified with respect to those matters.



CliftonLarsonAllen LLP

Charlotte, North Carolina
November 11, 2020

CHILDREN AND FAMILY SERVICES CENTER, INC. AND SUBSIDIARY
CONSOLIDATED STATEMENT OF FINANCIAL POSITION
JUNE 30, 2020

	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Total</u>
ASSETS			
CURRENT ASSETS			
Cash and Cash Equivalents	\$ 2,242,985	\$ 150,790	\$ 2,393,775
Current Portion of Accounts and Grants Receivable	80,567	120,000	200,567
Deferred Rent Receivable	34,506	-	34,506
Deferred Tenant Improvement	20,684	-	20,684
Other Receivables and Prepaid Assets	100,737	-	100,737
Bargain Use of Land	-	16,800	16,800
Total Current Assets	2,479,479	287,590	2,767,069
PROPERTY AND EQUIPMENT, NET	7,465,479	-	7,465,479
LONG-TERM ASSETS			
Accounts Receivable, Net of Current Portion	7,252	110,000	117,252
Deferred Rent Receivable, Net of Current Portion	89,763	-	89,763
Deferred Tenant Improvement, Net of Current Portion	174,665	-	174,665
Utility and Tenants Deposits and Other	10,426	-	10,426
Investments	756,451	-	756,451
Bargain Use of Land, Net of Current Portion	-	526,400	526,400
Total Long-Term Assets	1,038,557	636,400	1,674,957
 Total Assets	\$ 10,983,515	\$ 923,990	\$ 11,907,505
LIABILITIES AND NET ASSETS			
CURRENT LIABILITIES			
Accounts Payable	\$ 203,921	\$ -	\$ 203,921
Current Portion of Notes Payable	314,797	-	314,797
Other Liabilities	98,002	-	98,002
Total Current Liabilities	616,720	-	616,720
LONG-TERM LIABILITIES			
Notes Payable, Net of Current Portion and Debt Issuance Costs	907,766	-	907,766
Tenant Security Deposits and Other	42,303	-	42,303
Total Long-Term Liabilities	950,069	-	950,069
 Total Liabilities	1,566,789	-	1,566,789
 Total Net Assets	9,416,726	923,990	10,340,716
 Total Liabilities and Net Assets	\$ 10,983,515	\$ 923,990	\$ 11,907,505

See accompanying Notes to Consolidated Financial Statements.

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 ACTIVITIES
YEAR ENDED JUNE 30, 2020

	Without Donor Restrictions	With Donor Restrictions	Total
RENTAL ACTIVITY			
Member Agency Tenants	\$ 3,244,613	\$ -	\$ 3,244,613
Other Tenants	171,256	-	171,256
Technical Support Income	171,651	-	171,651
Member Agency Tenants Computer Lease Income	105,515	-	105,515
	3,693,035	-	3,693,035
SHARED SERVICES	1,382,909	-	1,382,909
SUPPORT AND OTHER			
Contributions	755	439,383	440,138
In-Kind Contributions	42,015	-	42,015
Other	17,830	-	17,830
Investment Income	22,920	-	22,920
	5,159,464	439,383	5,598,847
Net Assets Released from Restrictions Satisfaction of Purpose Restrictions	256,382	(256,382)	-
	5,415,846	183,001	5,598,847
EXPENSES			
Program Services			
Building	2,688,599	-	2,688,599
Collaboration	1,970,263	-	1,970,263
Fiscal Sponsorships	256,037	-	256,037
	4,914,899	-	4,914,899
Supporting Services			
Management and General	50,001	-	50,001
	4,964,900	-	4,964,900
CHANGE IN NET ASSETS	450,946	183,001	633,947
Net Assets - Beginning of Year	8,965,780	740,989	9,706,769
NET ASSETS - END OF YEAR	\$ 9,416,726	\$ 923,990	\$ 10,340,716

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
	3,297,196	-	3,297,196
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
	4,501,129	730,710	5,231,839
Net Assets Released from Restrictions Satisfaction of Purpose Restrictions	674,013	(674,013)	-
Total Rental, Support, and Other	5,175,142	56,697	5,231,839
EXPENSES			
Program Services			
Building	2,325,464	-	2,325,464
Collaboration	1,661,771	-	1,661,771
Fiscal Sponsorships	681,688	-	681,688
	4,668,923	-	4,668,923
Supporting Services			
Management and General	71,538	-	71,538
Total Expenses	4,740,461	-	4,740,461
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	\$ 8,965,780	\$ 740,989	\$ 9,706,769

See accompanying Notes to Consolidated Financial Statements.

CHILDREN AND FAMILY SERVICES CENTER, INC. AND SUBSIDIARY
CONSOLIDATED STATEMENT OF FUNCTIONAL EXPENSES
YEAR ENDED JUNE 30, 2020

	Program Services			Totals	Management and General	Totals 2020
	Building	Collaboration	Fiscal Sponsorships			
Personnel - Wages, Taxes, and Benefits	\$ 88,115	\$ 1,637,092	\$ 10,236	\$ 1,735,443	\$ 28,534	\$ 1,763,977
Professional Services - Finance and Accounting	-	50,185	230	50,415	14,703	65,118
Professional Services - Human Resources and Other	107	56,295	264	56,666	230	56,896
Professional Services - Legal (In-Kind \$14,627)	12,924	1,703	-	14,627	-	14,627
Office Expense (In-Kind \$27,388)	9,757	44,704	-	54,461	3,969	58,430
Information Technology	131	90,584	-	90,715	-	90,715
Occupancy	570,330	-	-	570,330	-	570,330
Interest	42,217	-	-	42,217	-	42,217
Travel	-	595	-	595	-	595
Conferences, Meetings, Training	420	12,009	-	12,429	-	12,429
Depreciation and Amortization	324,260	53,162	-	377,422	-	377,422
Insurance	20,389	19,394	-	39,783	911	40,694
Dues and Memberships	504	2,598	-	3,102	1,654	4,756
Communications and Public Awareness	-	1,942	-	1,942	-	1,942
Program Support	-	-	245,307	245,307	-	245,307
Rent Credits to Member Agencies	1,619,445	-	-	1,619,445	-	1,619,445
	<u>\$ 2,688,599</u>	<u>\$ 1,970,263</u>	<u>\$ 256,037</u>	<u>\$ 4,914,899</u>	<u>\$ 50,001</u>	<u>\$ 4,964,900</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 STATEMENTS OF CASH FLOWS
YEARS ENDED JUNE 30, 2020 AND 2019

	2020	2019
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in Net Assets	\$ 633,947	\$ 491,378
Adjustments to Reconcile Change in Net Assets to Net Cash Provided by Operating Activities:		
Depreciation	357,791	368,953
Amortization	16,800	16,800
Amortization - Lease Commission	213	3,022
Amortization - Tenant Improvement	11,491	-
Amortization - Debt Issuance Costs	2,618	2,617
Realized and Unrealized (Gain) Loss on Investments, Net	1,909	-
Increase in Accounts Receivable and Deferred Rent Receivable	(123,677)	(100,635)
Increase in Tenant Improvement	(206,840)	-
Decrease in Other Receivables and Prepaid Assets	10,177	18,732
Decrease in Tenant Security Deposits and Other	(70,027)	(52,276)
Increase in Accounts Payable and Other Liabilities	72,402	32,163
Net Cash Provided by Operating Activities	706,804	780,754
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchases of Property and Equipment	(269,722)	(154,678)
Proceeds from Refund of Property and Equipment	56,713	-
Acquisition of Investments	(758,360)	-
Net Cash Used in Investing Activities	(971,369)	(154,678)
CASH FLOWS FROM FINANCING ACTIVITIES		
Payments on Notes Payable	(195,605)	(188,046)
Proceeds from Notes Payable	289,300	-
Net Cash Provided by (Used in) Financing Activities	93,695	(188,046)
NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS	(170,870)	438,030
Cash and Cash Equivalents - Beginning of Year	2,564,645	2,126,615
CASH AND CASH EQUIVALENTS - END OF YEAR	\$ 2,393,775	\$ 2,564,645
SUPPLEMENTARY INFORMATION		
Cash Paid for Interest	\$ 42,217	\$ 49,776

See accompanying Notes to Consolidated Financial Statements.

CHILDREN AND FAMILY SERVICES CENTER, INC. AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2020 AND 2019

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 twelve not-for-profit member agencies who lease approximately 89% 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.

CHILDREN AND FAMILY SERVICES CENTER, INC. AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2020 AND 2019

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.

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. When a restriction expires (that is, when a stipulated time restriction ends or purpose restriction is accomplished), net assets with donor restrictions are released to net assets without donor restrictions and reported in the consolidated statements of activities as net assets released from restrictions.

Conditional promises to give – that is, those with a measurable performance or other barrier and a right of return – are not recognized until the conditions on which they depend have been met. Conditional contributions whose conditions are met in the same reporting period in which they are received are reported as unconditional contributions.

CHILDREN AND FAMILY SERVICES CENTER, INC. AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2020 AND 2019

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Grants and Purchased Services

Grant awards are evaluated by management and determined to either be unconditional contributions, exchange transactions, or conditional contributions. If considered to be an unconditional contribution, revenue from grants is recorded upon notification of the award. If considered to be an exchange transaction, revenue from grants is recorded as expenses are incurred under the terms of the respective grant agreement. If considered to be a conditional contribution, revenue from grants is recorded at the time the conditions on which they depend have been met.

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.

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 Federal Deposits Insurance Company (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, 2020 and 2019 and are presented at its net realizable value. No allowance for bad debt has been provided.

Investments

The Organization has included in these consolidated financial statements the fair value of investments and related income earned on certain funds held in trust solely for the benefit of the Organization.

CHILDREN AND FAMILY SERVICES CENTER, INC. AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2020 AND 2019

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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.

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 \$358,000 and \$369,000 for the years ended June 30, 2020 and 2019, respectively.

Deferred Tenant Improvement

Deferred tenant improvement is included on the consolidated statements of financial position and consists of payments to tenants for improvements as an incentive for signing a lease. These amounts will be amortized of the length of the lease.

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.

CHILDREN AND FAMILY SERVICES CENTER, INC. AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2020 AND 2019

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Donated Materials and Services (Continued)

The Center rents office space to twelve 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, 2020 and 2019, 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 \$1,619,000 and \$1,253,000, respectively.

Fair Value of Financial Instruments

Fair value is a market-based measurement, not an entity-specific measurement. Therefore, a fair value measurement should be determined based on the assumptions that market participants would use in pricing the asset or liability and establishes a fair value hierarchy. The fair value hierarchy consists of three levels of inputs that may be used to measure fair value as follows:

Level 1 – Inputs that utilize quoted prices (unadjusted) in active markets for identical assets or liabilities that the Organization has the ability to access.

Level 2 – Inputs that include quoted prices for similar assets and liabilities in active markets and inputs that are observable for the asset or liability, either directly or indirectly, for substantially the full term of the financial instrument. Fair values for these instruments are estimated using pricing models, quoted prices of securities with similar characteristics, or discounted cash flows.

Level 3 – Inputs that are unobservable inputs for the asset or liability, which are typically based on an entity's own assumptions, as there is little, if any, related market activity.

In instances where the determination of the fair value measurement is based on inputs from different levels of the fair value hierarchy, the level in the fair value hierarchy within which the entire fair value measurement falls is based on the lowest level input that is significant to the fair value measurement in its entirety.

Subsequent to initial recognition, the Center may re-measure the carrying value of assets and liabilities measured on a nonrecurring basis to fair value. Adjustments to fair value usually result when certain assets are impaired. Such assets are written down from their carrying amounts to their fair value. The Center did not have any non-financial assets or liabilities measured on a recurring or non-recurring basis as of June 30, 2020 or 2019.

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.

CHILDREN AND FAMILY SERVICES CENTER, INC. AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2020 AND 2019

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Adoption of New Accounting Principles

In May 2014, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) 2014-09, *Revenue from Contracts with Customers (Topic 606)*. Subsequent to May 2014, the FASB issued six ASUs to clarify certain matters related to Topic 606. Topic 606 supersedes the revenue recognition requirements in FASB Accounting Standards Codification (ASC) 605, *Revenue Recognition*, and requires the recognition of revenue when promised goods or services are transferred to customers in an amount that reflects the consideration to which an entity expects to be entitled in exchange for those goods or services. The updates address the complexity of revenue recognition and provide sufficient information to enable financial statement users to understand the nature, amount, timing, and uncertainty of revenue and cash flows arising from contracts with customers.

The Center's consolidated financial statements reflect the application of Topic 606 guidance beginning in 2018, as ASC 606 was adopted using the full retrospective approach. No cumulative-effect adjustment in net assets was recorded because the adoption of ASU 2014-09 did not significantly impact the Center's reported historical revenue as there are no significant revenue streams subject to Topic 606.

The Center has adopted ASU 2018-08, *Not-for-Profit Entities: Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made* (ASU 2018-08) as management believes the standard improves the usefulness and understandability of the Center's financial reporting.

The Center's consolidated financial statements reflect the application ASU 2018-08 beginning in 2019. No cumulative-effect adjustment in net assets was recorded because the adoption of ASU 2018-08 did not significantly impact the Center's reported historical revenue.

Revenue Recognition

The Center recognizes the rental income monthly as earned, which is not materially different than on a straight-line basis.

Recent Accounting Pronouncements

In February 2016, the FASB issued ASU 2016-02, *Leases (Topic 842)*. The amendments in the update increase transparency and comparability among organizations by recognizing lease assets and lease liabilities on the statements of financial position and disclosing Key information about leasing arrangements. The guidance is required to be applied by the Center for the year ended June 30, 2023; however, early application is permitted. The Center is currently evaluating the effect that the standard will have on the consolidated financial statements.

CHILDREN AND FAMILY SERVICES CENTER, INC. AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2020 AND 2019

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Risks and Uncertainties

In March 2020, the World Health Organization declared Coronavirus (COVID-19) a pandemic. The continued spread of COVID-19, or any similar outbreaks in the future, may adversely impact the local, regional, national, and global economies. The extent to which COVID-19 impacts the Center's results are dependent on the breadth and duration of the pandemic and could be affected by other factors currently unable to be predicted. These impacts may include, but are not limited to additional costs for emergency preparedness or loss of revenue due to reductions in certain revenue streams. Management believes the Center is taking appropriate actions to mitigate the negative impact. However, the full impact is unknown and cannot be reasonably estimated at this time.

Subsequent Events

In preparing these consolidated financial statements, the Center has evaluated events and transactions for potential recognition or disclosure through November 11, 2020, the date the consolidated financial statements were available to be issued.

NOTE 3 PROPERTY AND EQUIPMENT, NET

Property and equipment are summarized as follows at June 30:

	2020	2019
Buildings and Components	\$ 11,168,859	\$ 10,993,889
Furnitures, Fixtures, and Equipment	2,428,959	2,385,249
	13,597,818	13,379,138
Less: Accumulated Depreciation	(6,132,339)	(5,768,877)
	\$ 7,465,479	\$ 7,610,261

CHILDREN AND FAMILY SERVICES CENTER, INC. AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2020 AND 2019

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
2021	\$ 140,000
2022	140,000
2023	140,000
2024	140,000
2025	140,000
Thereafter	3,850,000
	\$ 4,550,000

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, 2020 and 2019:

	2020	2019
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	(289,800)	(273,000)
	\$ 543,200	\$ 560,000

CHILDREN AND FAMILY SERVICES CENTER, INC. AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2020 AND 2019

NOTE 6 INVESTMENTS

Investments at June 30, 2020 consisted of the following:

	2020
Certificates of Deposit	\$ 255,320
Mutual Funds	501,131
Total Investments	\$ 756,451

The Organization's investments are exposed to various risks such as interest rate, market, liquidity, and credit risk. Due to the current and potential future volatility in the financial markets, it is possible that changes in the investment values and liquidity could occur in the near term and could materially affect the reported investment values in the accompanying statements of financial position.

The following is a summary of investment return and losses for the year ended June 30, 2020:

	2020
Interest and Dividends, Net of Fees	\$ 24,529
Net Change in Fair Value of Investments, Including	
Realized and Unrealized Gains	(1,609)
Investment Income, Net	\$ 22,920

NOTE 7 NOTES PAYABLE

The Center has promissory notes (the Promissory Notes) that bears an interest rate of 3.95% and expire in October 2024.

In May 2020, the Center entered into a new unsecured promissory note (the Note) with a lender in the amount of \$289,300 under the Paycheck Protection Program (PPP) established by section 1102 of the CARES Act and as implemented and administered by the Small Business Administration (SBA). Under the terms of the agreement, the Note bears an interest rate of 1.0% and will be repaid in 18 monthly installments of \$16,281 beginning in November 2020. The outstanding balance on the Note at June 30, 2020 was approximately \$289,300.

CHILDREN AND FAMILY SERVICES CENTER, INC. AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2020 AND 2019

NOTE 7 NOTES PAYABLE (CONTINUED)

The Notes are comprised of the following at June 30, 2020 and 2019:

	2020	2019
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	\$ 476,452	\$ 575,114
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	468,153	565,096
Promissory note due May 2022, payable in equal monthly principal installments of \$16,281 and one final payment, plus interest at a rate of 1.00%	289,300	-
	1,233,905	1,140,210
Less: Current Portion	(314,797)	(195,090)
Less: Debt Issuance Costs	(11,342)	(13,960)
Total Notes Payable, Net	\$ 907,766	\$ 931,160

Annual principal payments due on the Notes Payable are as follows:

Year Ending June 30,	Notes
2021	314,797
2022	390,204
2023	220,653
2024	229,636
2025	78,615
	\$ 1,233,905

Under the PPP, all or a portion of this loan may be forgiven. The actual amount of the loan forgiveness will depend, in part, on the total amount of payroll costs, rent payments, and utility payments paid by the Center during the twenty four week period following the Note. Management anticipates applying for full forgiveness of this loan during the year ending June 30, 2021.

CHILDREN AND FAMILY SERVICES CENTER, INC. AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2020 AND 2019

NOTE 8 REVOLVING CREDIT LINE

The Center has a line of credit in the amount of \$250,000 with a financial institution. Any future borrowings will become due and payable on December 18, 2021, with an interest rate 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, 2020 and 2019 was 4.75% and 6.0%, respectively. The Center had no amounts outstanding on its revolving line of credit as of June 30, 2020 and 2019.

NOTE 9 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, 2020 and 2019:

	<u>2020</u>	<u>2019</u>
Purpose Restricted:		
Bargain Use of Land	\$ 543,200	\$ 560,000
Community Building through Art Programs of AboutFace CLT	16,570	16,108
Bilingual Education Programs of La Escuelita San Marcos	10,699	58
Not-for-Profit Training Programs of Next Stage Consulting	25,397	32,844
Education Programs of Latin American Chamber of Charlotte	1,198	720
Child Abuse Awareness Programs of Meck4Kids	4,617	5,873
A Non Profit Executive Directors Association	215	323
Community Building Through Publishing a Local Newspaper	91,630	125,000
Living Libraries	4,632	-
Independence for Adults	5,621	-
Ucity Family Zone	220,000	-
Other	211	63
	<u>\$ 923,990</u>	<u>\$ 740,989</u>

CHILDREN AND FAMILY SERVICES CENTER, INC. AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2020 AND 2019

NOTE 9 NET ASSETS WITH DONOR RESTRICTIONS (CONTINUED)

Net assets released from restrictions consisted of the following for the years ending June 30, 2020 and 2019:

	<u>2020</u>	<u>2019</u>
Purpose Restricted Releases:		
Bargain Use of Land	\$ 16,800	\$ 16,800
Community Building through Art Programs of AboutFace CLT	48	18,618
High School Transition Programs of Carolina Youth Coalition	-	476,121
Not-for-Profit Training Programs of Next Stage Consulting	72,447	51,033
Bilingual Education Programs of La Escuelita San Marcos	53,129	7,981
Education Programs of Latin American Chamber of Charlotte	55,648	4,771
Child Abuse Awareness Programs of Meck4Kids	3,857	6,085
A Non Profit Executive Directors Association	15,458	9,677
Living Libraries	2,868	-
Independence for Adults	1,879	-
Community Building through Publishing a Local Newspaper	33,370	-
Other	878	-
Center For International Leadership	-	82,927
	<u>\$ 256,382</u>	<u>\$ 674,013</u>

NOTE 10 TENANT LEASES

The Center has lease agreements with twelve not-for-profit member agencies and other tenants. The aggregate annual rental payments to be received under these agreements subsequent to June 30, 2020, are as follows:

<u>Years Ending June 30,</u>	<u>Member Agency Tenants</u>	<u>Other Tenants</u>	<u>Total</u>
2021	\$ 1,730,978	\$ 128,198	\$ 1,859,176
2022	1,622,135	46,724	1,668,859
2023	1,368,800	24,912	1,393,712
2024	950,713	-	950,713
2025	812,611	-	812,611
Thereafter	2,286,964	-	2,286,964
	<u>\$ 8,722,201</u>	<u>\$ 199,834</u>	<u>\$ 8,922,035</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).

CHILDREN AND FAMILY SERVICES CENTER, INC. AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2020 AND 2019

NOTE 11 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 \$19,500, as well as a catch-up provision that allows participants older than 50 years of age to contribute an additional \$6,500, as specified by the Internal Revenue Service for the calendar year 2020, 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, 2020 and 2019 were approximately \$36,000 and \$31,000, 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, 2020 and 2019, there was one participant in the Deferred Compensation Plan each year, although different individuals. The Center made no deposits to the trust for the year ended June 30, 2020. The Center's deposits to the trust for the year ended June 30, 2019 was \$1,370.

NOTE 12 CONTRIBUTED GOODS AND SERVICES

The contributed goods and services received by the Center for the years ended June 30, 2020 and 2019 are as follows:

	Revenue Recognized	Expense Recognized
Year Ended June 30, 2020		
Legal Services	\$ 14,627	\$ 14,627
Office Furniture and Computer Equipment	27,388	27,388
	<u>\$ 42,015</u>	<u>\$ 42,015</u>
Year Ended June 30, 2019		
Legal Services	\$ 7,976	\$ 7,976
Office Furniture and Computer Equipment	14,990	14,990
	<u>\$ 22,966</u>	<u>\$ 22,966</u>

CHILDREN AND FAMILY SERVICES CENTER, INC. AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2020 AND 2019

NOTE 13 FAIR VAUE MEASUREMENTS

The Organization uses fair value measurements to record fair value adjustments to certain assets and liabilities and to determine fair value disclosures. For additional information on how the Organizations measures fair value refer to Note 2 – Summary of Significant Accounting Policies. The following table presents the fair value hierarchy for the balances of the assets and liabilities the Organization measured at fair value on a recurring basis as of June 30, 2020:

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Investments:				
Certificates of Deposit	\$ 255,320	\$ -	\$ -	\$ 255,320
Mutual Funds	501,131	-	-	501,131
	<u>\$ 756,451</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 756,451</u>

NOTE 14 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, 2020 and 2019:

	<u>2020</u>	<u>2019</u>
Cash and Cash Equivalents	\$ 2,242,985	\$ 2,383,656
Accounts Receivable	80,567	139,382
Deferred Rent Receivable	34,506	43,481
Other Receivables	13,051	12,705
Total Net Financial Assets Available to Meet Liquidity Needs	<u>\$ 2,371,109</u>	<u>\$ 2,579,224</u>

The Center also has a line of credit, of \$250,000, available to meet short-term needs. See Note 8 for information about the arrangement.