

COMMUNITY FAMILY CENTERS
AUDITED FINANCIAL STATEMENTS AND
SUPPLEMENTAL INFORMATION
DECEMBER 31, 2012

With Summarized Information For
The Year Ended December 31, 2011

COMMUNITY FAMILY CENTERS

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INDEPENDENT AUDITOR'S REPORT ON THE FINANCIAL STATEMENTS AND OTHER FINANCIAL INFORMATION

Management and Board of Directors
Community Family Centers

Report on the Financial Statements

We have audited the accompanying financial statements of Community Family Centers (CFC), which comprise the statement of financial position as of December 31, 2012, and the related statements of activities, and cash flows for the year 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.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audit contained in *Government Auditing Standards* issued by the Comptroller General of the United States. 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 auditor's 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.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of CFC as of December 31, 2012, and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Other Financial Information

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The accompanying supplemental statement of functional expenses on page 20 is presented for purposes of additional analysis and is not a required part of the financial statements. The accompanying schedule of expenditures of federal awards on page 21, as required by Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations* is presented for purposes of additional analysis and is also not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated, in all material respects, in relation to the financial statements as a whole.

Report on 2011 Summarized Comparative Information

We have previously audited CFC's 2011 financial statements, and we expressed an unmodified opinion on those financial statements in our report dated May 10, 2012. In our opinion, the summarized comparative information presented herein as of and for the year ended December 31, 2011, is consistent, in all material respects, with the audited financial statements from which it has been derived.



Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated May 10, 2013 on our consideration of CFC's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering CFC's internal control over financial reporting and compliance.

Am-Bankole, P.C.

Houston, Texas
May 10, 2013

AUDITED FINANCIAL STATEMENTS SECTION

COMMUNITY FAMILY CENTERS
STATEMENT OF FINANCIAL POSITION
DECEMBER 31, 2012
(WITH SUMMARIZED FINANCIAL INFORMATION AS OF DECEMBER 31, 2011)

	2012	2011
ASSETS		
Cash	\$ 888,782	\$ 237,212
Restricted cash	74,942	138,272
Certificates of deposit	-	589,686
Grants receivable	216,489	237,867
Other receivables	195,590	178,556
Prepaid expenses	7,678	780
Other assets	7,287	7,287
Property and equipment, net	4,484,322	4,593,904
TOTAL ASSETS	\$ 5,875,090	\$ 5,983,564
LIABILITIES AND NET ASSETS		
LIABILITIES		
Accounts payable	\$ 7,679	\$ 8,701
Payroll and related liabilities	96,629	86,428
Deferred revenue	59,605	63,691
Accrued expenses	31,711	783
Notes payable	582,225	582,996
Total liabilities	777,849	742,599
NET ASSETS		
Unrestricted	4,486,406	4,648,210
Temporarily restricted	610,835	592,755
Total net assets	5,097,241	5,240,965
TOTAL LIABILITIES AND NET ASSETS	\$ 5,875,090	\$ 5,983,564

The accompanying notes are an integral part of these financial statements.

**COMMUNITY FAMILY CENTERS
STATEMENT OF ACTIVITIES
YEAR ENDED DECEMBER 31, 2012**

(WITH SUMMARIZED FINANCIAL INFORMATION FOR THE YEAR ENDED DECEMBER 31, 2011)

	2012			2011
	Unrestricted	Temporarily restricted	Total	Total
REVENUES				
Federal grants	\$ 2,282,546	\$ 33,592	\$ 2,316,138	\$ 2,996,360
Local and other grants	50,696	5,586	56,282	62,795
Contributions	155,670	58,000	213,670	205,155
United Way allocation		642,879	642,879	669,947
Program service fees	100,270	-	100,270	76,042
Other income	10,065	-	10,065	15,965
Net assets released from restrictions:				
Restrictions satisfied by purpose	79,098	(79,098)	-	-
Restrictions satisfied by time	642,879	(642,879)	-	-
TOTAL REVENUES	<u>3,321,224</u>	<u>18,080</u>	<u>3,339,304</u>	<u>4,026,264</u>
EXPENSES				
Program services:				
Youth services	1,262,196	-	1,262,196	1,223,000
Adult education	1,251,704	-	1,251,704	1,238,722
Family support services	373,845	-	373,845	348,583
Early childhood education	391,723	-	391,723	478,726
Total program services	<u>3,279,468</u>	<u>-</u>	<u>3,279,468</u>	<u>3,289,031</u>
Supporting services:				
Management and general	95,642	-	95,642	128,108
Fundraising	107,918	-	107,918	62,665
Total supporting services	<u>203,560</u>	<u>-</u>	<u>203,560</u>	<u>190,773</u>
TOTAL EXPENSES	<u>3,483,028</u>	<u>-</u>	<u>3,483,028</u>	<u>3,479,804</u>
CHANGE IN NET ASSETS	(161,804)	18,080	(143,724)	546,460
NET ASSETS, BEGINNING OF YEAR	<u>4,648,210</u>	<u>592,755</u>	<u>5,240,965</u>	<u>4,694,505</u>
NET ASSETS, END OF YEAR	<u>\$ 4,486,406</u>	<u>\$ 610,835</u>	<u>\$ 5,097,241</u>	<u>\$ 5,240,965</u>

The accompanying notes are an integral part of these financial statements.

COMMUNITY FAMILY CENTERS
STATEMENT OF CASH FLOWS
YEAR ENDED DECEMBER 31, 2012

(WITH SUMMARIZED FINANCIAL INFORMATION FOR THE YEAR ENDED DECEMBER 31, 2011)

	2012	2011
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	\$ (143,724)	\$ 546,460
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation	145,505	93,585
Gain on sale of property and equipment	-	(9,301)
Changes in operating assets and liabilities:		
Grants receivable	21,378	219,455
Other receivables	(17,034)	(15,907)
Prepaid expenses	(6,898)	12,799
Accounts payable	(1,022)	(412,667)
Payroll and related liabilities	10,201	8,863
Deferred revenue	(4,086)	(16,027)
Accrued expenses	30,928	232
Total adjustments	178,972	(118,968)
Net cash provided by operating activities	35,248	427,492
CASH FLOWS FROM INVESTING ACTIVITIES		
Restricted cash	63,330	914,489
Certificates of deposit	589,686	(58,179)
Proceeds from sale of property and equipment	-	11,430
Property and equipment	(35,923)	(1,782,403)
Net cash used in investing activities	617,093	(914,663)
CASH FLOWS FROM FINANCING ACTIVITIES		
Payment of notes payable and line of credit	(588,771)	(269,031)
Proceeds from notes payable	588,000	582,996
Net cash provided by financing activities	(771)	313,965
NET INCREASE (DECREASE) IN CASH	651,570	(173,206)
CASH, BEGINNING OF YEAR	237,212	410,418
CASH, END OF YEAR	\$ 888,782	\$ 237,212
Supplemental cash flow information		
Interest paid	\$ 36,217	\$ 13,752

The accompanying notes are an integral part of these financial statements.

COMMUNITY FAMILY CENTERS

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2012
(WITH COMPARATIVE DISCLOSURES FOR 2011)

1. NATURE OF ACTIVITIES AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Organization and Nature of Activities

Community Family Centers (CFC), formerly called Chicano Family Center, is a Texas nonprofit corporation, formed in 1972 to offer a wide range of social services to help families address their basic needs as they move towards self-sufficiency and economic advancement. The vision of CFC is to strengthen families and enrich the quality of life in the community by providing a safe and nurturing environment for children to excel, youth to succeed, and adults to learn. Over the past 40 years, CFC has created measurable change within the neighborhoods surrounding Houston's impoverished East End by enhancing community partnerships, promoting cultural understanding and empowering citizens. CFC is a member agency of the United Way of Greater Houston (UWGH).

CFC's programs and services are funded by government grants and contributions from UWGH, individuals, corporations and private foundations.

CFC's four major programs - adult education, early childhood education, youth services and family support services - are more fully discussed in Note 2 of this report.

Basis of Accounting

CFC's financial statements have been prepared on the accrual basis of accounting and accordingly reflect all significant receivables, payables and other liabilities. Furthermore, revenue is recognized when earned and expense recorded when the obligation is incurred.

Basis of Presentation

CFC's financial statements have been prepared following the recommendations of the Financial Accounting Standards Board. Under the Statement of Financial Accounting Standards (SFAS) Accounting Standards Codification (ASC or Codification) 958-205, *Not-for-Profit Entities – Presentation of Financial Statements*, CFC is required to report information regarding its financial position and activities according to the following three classes of net assets:

Unrestricted net assets – These are resources without donor-imposed restrictions and are available to support the general operations of CFC. Unrestricted net assets totaled \$4,489,406 and \$4,648,210 as of December 31, 2012 and 2011, respectively.

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Temporarily restricted net assets – These are resources with donor-imposed stipulations that either expire by passage of time or can be fulfilled and removed by actions of CFC. Temporarily restricted net assets as of December 31, 2012 and 2011 amounted to \$610,835 and \$592,755, respectively.

Permanently restricted net assets – These are resources with permanent donor-imposed restrictions that neither expire by passage of time nor can be fulfilled or otherwise removed by actions of CFC. CFC did not have permanently restricted net assets as of December 31, 2012 and 2011.

CFC is also required by SFAS ASC Topic 958-230, *Not-for-Profit Entities – Statement of Cash Flows*, to present a statement of cash flows.

Revenue Recognition

Federal and other grants are recognized when earned, which is generally when costs are incurred for cost reimbursement contracts or when service has been delivered in the case of fee-for-service contracts. Contributions from UWGH are recognized as temporarily restricted revenues when the award is received.

In accordance with SFAS ASC Topic 958-605, *Not-for-Profit Entities – Revenue Recognition*, contributions received are recorded as unrestricted, temporarily restricted, or permanently restricted support depending on the existence and nature of any donor restrictions.

Grants from federal and other government sources are reported as unrestricted revenues if they are used within the contract period.

Unconditional promises to give are recognized as revenues in the period they are received. Conditional promises to give are not recognized until the conditions on which they depend are substantially met. Contributions that are restricted by the donor are reported as increases in unrestricted net assets if the restrictions are satisfied in the same fiscal year the contributions are recognized. All other donor-restricted contributions are reported as increases in temporarily or permanently restricted net assets depending on the nature of the restrictions. When a restriction expires, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets released from restrictions.

Other income is recognized as revenue when actually received.

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(WITH COMPARATIVE DISCLOSURES FOR 2011)

Grant and Other Receivables

Grant receivables represent invoices or billings to grant awarding agencies for which payments were not received at the end of the fiscal year. A significant portion of other receivables as of the end of each fiscal year represents funding commitment from UWGH for the first quarter of following fiscal year. The carrying amount of these receivables reported in the statement of financial position approximates fair value.

CFC provides for losses on receivables using the allowance method. The allowance for doubtful accounts is regularly evaluated by management and is based on management's past experience with grantors or donors and its consideration of how the prevailing economic circumstances may affect the ability to give. Receivables are considered impaired if full payments are not received in accordance with contractual terms. Management considers receivables at December 31, 2012 and 2011 to be fully collectible. Accordingly, no allowance for delinquent receivables was made for the years ended December 31, 2012 and 2011.

Contributed Services

In accordance with SFAS ASC Topic 958-605, *Non-for-Profit Entities - Accounting for Contributions Received and Contributions Made*, CFC recognizes contributed services at their estimated fair value if the services received (a) create or enhance long-lived assets or (b) require specialized skills, are provided by individuals possessing those skills, and would typically need to be purchased if not provided by donation.

CFC receives a substantial amount of donated services from volunteers who provided management and program support during the year. No amounts have been reflected in the accompanying financial statements for donated services because they did not meet the criteria for recognition contained in GAAP.

Cash, Cash Equivalents and Restricted Cash

CFC considers all cash and highly liquid short-term investments with original maturities of ninety days or less to be cash equivalents. The carrying amounts reported in the accompanying statement of financial position for cash and cash equivalents approximate their fair values. There was no cash equivalent included in cash as of December 31, 2012 and 2011. CFC has cash balances, in accounts with financial institutions considered by management as credit-worthy and strong, which may occasionally exceed limits insured by the Federal Deposit Insurance Corporation (FDIC). CFC has not experienced any loss of assets resulting from a bank run or collapse in the past.

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Restricted cash relates to capital campaign and other contributions whose use is restricted by donors to the funding of the construction of JP McGovern Community Sports and Recreation Center and other building projects by CFC. Restricted cash as of December 31, 2012 and 2011 was \$74,942 and \$138,272, respectively.

Deferred Revenue

Deferred revenue represents receipts from government agencies before services are performed. Revenue is recognized when services are performed and costs incurred.

Property and Equipment

All acquisitions of property and equipment in excess of \$500 and all expenditures for repairs, maintenance, or improvements that significantly prolong the useful lives of the assets are capitalized. Purchases of property and equipment are recorded at cost. Donated assets are recorded as support at fair value at date of donation. Such donations are reported as unrestricted support unless the donor has restricted the donated asset to a specific purpose. Assets donated with explicit restrictions regarding their use and contributions of cash that must be used to acquire or maintain property and equipment are recorded as restricted contributions. Absent donor stipulations regarding how long those donated assets must be maintained, CFC reports expirations of donor restrictions when the donated or acquired assets are placed in service as instructed by the donor and reclassifies temporarily restricted net assets to unrestricted net assets. CFC does not have any capital assets which have donor-imposed restrictions as of December 31, 2012 and 2011.

Property and equipment are depreciated using the straight-line method over the estimated useful lives of the assets as follows:

Building and building improvements	7- 39 years
Leasehold improvements	Useful life or related lease
Equipment, software and vehicles	3 – 13 years

Upon retirement or sale of any asset, the cost and accumulated depreciation of the asset are removed from the accounts. Any gain or loss resulting from such retirement or sale is reflected in the statement of activities. Routine maintenance and repairs are charged to expense as incurred.

Functional Allocation of Expenses

The costs of providing the various programs and other activities have been summarized on a functional basis in the statement of activities. Accordingly, certain costs which cannot directly be charged to specific programs and activities have been allocated based

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on CFCs' cost allocation plan approved by the Texas Department of State Health Services.

Income Tax Status

CFC is exempt from federal income taxes under Section 501(c)(3) of the Internal Revenue Code (IRC) and has been classified by the Internal Revenue Service as a publicly supported organization. No provision for income tax has been recorded for the years ended December 31, 2012 and 2011, as CFC has no taxable unrelated business income. Management believes that CFC: has properly maintained its exempt status, does not have an uncertain tax position and has properly classified its revenue as exempt in the accompanying statement of activities.

CFC's information returns (Form 990) are generally open to examination by taxing authorities for a period of three years from the date they were filed. Accordingly, CFC's Form 990 filed for tax years 2009, 2010 and 2011 could still be examined by the Internal Revenue Service.

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 certain 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. Estimates also affect the reported amounts of revenues and expenses during the reporting period. Significant estimates in the accompanying financial statements were depreciation expense based on the assets' useful lives and costs allocated to programs and activities in the statement of functional expenses. Actual results could differ from those estimates.

Compensable Absences

Employees are entitled to annual vacation from the first day of employment. Employees are allowed to carry forty hours of accrued vacation to the following year. Accrued vacation is paid to terminated employees who have worked for six months or more with CFC. Accrued vacation recorded in the financial statements for the years ended December 31, 2012 and 2011 was approximately \$30,417 and \$34,175, respectively. Full-time employees are entitled to six days of sick leave in a calendar year while part-time employees can only take three days. Employees can carry three days of unused sick leave to the following year. Accrued sick days are not paid on termination of employment.

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(WITH COMPARATIVE DISCLOSURES FOR 2011)

Prior Year Summarized Comparative Information

The accompanying financial statements include certain prior year summarized comparative information. With respect to the statement of activities, the prior year information is presented in total, not by net asset class. With respect to the statement of functional expenses, the prior year expenses are presented by expense classification in total rather than functional category. Such information does not include sufficient detail to constitute a presentation in conformity with accounting principles generally accepted in the United States of America. Accordingly, such information should be read in conjunction with CFC's financial statements for the year ended December 31, 2011, from which the summarized information was derived.

Reclassifications

Certain reclassifications have been made to the 2011 financial statements amounts to conform to the 2012 financial statements presentation. Such reclassifications did not change total assets, liabilities, revenues and expenses or change in net assets reflected in the 2011 financial statements.

2. PROGRAMS AND SERVICES PROVIDED

CFC's programs and services are as follows:

Early Childhood Education Program

This program is funded by the Child Care Council of Greater Houston, UWGH, Collaborative for Children, and Leaders in Education. It prepares preschool children from ages three to six for academic success by providing Montessori-based early education and training opportunities for parents to enhance their roles as primary educators for their children.

Adult Education Program

This is a year-round program funded by UWGH and Houston Community College. It provides comprehensive courses for participants above 18 years old to gain the skills and education necessary to achieve self-sufficiency and a higher standard of living. Courses offered include English as a Second Language (Levels I-IV), Adult Basic Education, General Equivalency Diploma (GED), Computer Skills Training and Workforce Training. Offered at two locations (CFC's main office and a leased facility in Southwest Houston), CFC utilizes a curriculum designed by the Texas Educational Agency and promoted by the National Institute for Literacy. Classes are taught by degreed instructors who use a holistic approach to immerse students in the English language. The curriculum

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is coupled with a functional, real-life approach so that students can quickly learn new skills and practice their new found knowledge at home, at work, and in the community.

Family Support Services (formerly Clinica de Consulta Familiar)

This program, which is funded by UWGH and the Federal Emergency Food and Shelter Program, provides comprehensive services within the agency's continuum of care. The services provided include:

Information Dissemination on education, legal, social economic, governmental, personal health, and public health issues, as well as the translation and completion of assistance forms.

Intake and Referral Services to a CFC program, another United Way agency, government department, or community-based social service agency, depending on the most appropriate way to resolve identified needs.

Food Pantry, providing one of the largest and most active food pantries in Houston. The pantry serves over 1,000 families weekly, and distributes over 1.5 million pounds of food every Friday through a partnership with the Houston Food Bank. The food pantry combines emergency food distribution with nutritional education.

Health Screenings and Immunizations by community partners, such as vision screenings provided by the University of Texas Eye Institute, dental screenings, well child care, and immunizations provided by the Harris County Hospital District's "Trouble Shooter" Mobil Unit.

Youth Services

This program is funded by UWGH and the Texas Department of State Health Services. It includes the following components:

Substance Abuse Prevention Education

This provides universal drug education and life skills courses as well as prevention and intervention counseling to at-risk youth. CFC offers a substance abuse education curriculum to all students, K-12th grade, at Austin High School, South Mayd Elementary and Marshall Middle School, as well as more intensive counseling to students at fourteen different schools in the East End. Summer programs include a day camp to teach students about substance abuse prevention, life skills group sessions, HIV/AIDS classes, recreational activities, and educational field trips.

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Juvenile Delinquency Prevention

This program focuses on prevention and intervention of the path that leads from early antisocial behavior to juvenile delinquency through services that are offered in area schools and at CFC's central office. The objective of this program is to reduce juvenile delinquency through educational and behavior modification groups. Groups are comprised of youth identified as being at risk of committing and/or repeating serious offenses or failing out of school. The service also provides as-needed and on-going counseling to at-risk/high-risk youth and their families throughout the year. The complementary juvenile delinquency prevention program is delivered at HISD schools and to youth referred from juvenile courts.

Teen Pregnancy Program

This program helps prevent teen pregnancies and provide support to pregnant adolescents by offering presentations in schools and at local health fairs to increase sexual responsibility among male and female teenagers. Service components include providing pregnant teens with health screenings, needs assessments, prenatal risk assessments, psychosocial evaluations, referrals to other community resources, and parenting education in an effort to reduce preterm births, birth defects and infant mortality. Mothers in the program are encouraged to return to school after giving birth in order to increase high school matriculation rates.

Out-of-School and Summer Program

This program addresses the lack of positive after-school and summer activities in the East End. The program components include: academics, enrichment, skill-building, community involvement through sports, arts and crafts, creative writing and homework assistance.

Count Down to College Program

This program identifies and recruits high school students who require assistance with educational and career goals. Summer tours to local and other Texas universities are arranged to engage youth in college exposure. Activities are supervised by college tour guides and provide exposure to college life, including admissions, school departments, financial aid, campus life, and dorms. Students are also engaged in PSAT/ACT mock testing during the summer with the assistance of an intern from Yale University.

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NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2012
(WITH COMPARATIVE DISCLOSURES FOR 2011)

3. JP McGOVERN COMMUNITY SPORTS AND RECREATION CENTER

In September 15, 2006, CFC received a grant of \$500,000 from the City of Houston (the "City") to partly finance the construction of the JP McGovern Community Sports and Recreation Center (the "Center"). The grant was increased to \$1,270,000 on May 18, 2009. The grant has a restricted use period (grant period) of ten years effective from September 15, 2006.

During the grant period, CFC is required to: strictly use the Center as a gymnasium; comply with the rules and regulations of the U.S. Department of Housing and Urban Development; ensure that at least 51% of persons using the Center are from low and moderate income families; obtain written approval from the City Director of Housing and Community Development prior to selling, transferring or assigning its interest in the Center; return proceeds from sale of the Center to the City; and maintain proper and sufficient records of grant expenditures and related activities and keep such records for at least 5 years after the end of the grant period. CFC is accountable to the City for any net program income generated or derived directly or indirectly from activities conducted pursuant to the grant agreement. CFC is liable to return the grant to the City if it violates the terms of the grant during the grant period.

The Center was completed in October 2011 at an approximate cost of \$2,668,362.

4. PROPERTY AND EQUIPMENT

Property and equipment as of December 31, 2012 and 2011 are summarized as follows:

	<u>2012</u>	<u>2011</u>
Land	\$ 451,659	\$ 451,659
Building	4,787,633	4,764,485
Leasehold improvements	4,384	4,384
Equi[ment and furniture	183,725	176,306
Vehicles	108,324	127,623
Software	-	1,802
	<u>5,535,725</u>	<u>5,526,259</u>
Accumulated depreciation and amortization	<u>(1,051,403)</u>	<u>(932,355)</u>
Property and equipment, net	<u>\$ 4,484,322</u>	<u>\$ 4,593,904</u>

Depreciation and amortization expense for the years ended December 31, 2012 and 2011 amounted to \$93,585 and \$73,471, respectively.

COMMUNITY FAMILY CENTERS

NOTES TO FINANCIAL STATEMENTS

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(WITH COMPARATIVE DISCLOSURES FOR 2011)

5. NOTES PAYABLE

On January 13, 2011, CFC obtained a three-year term loan (the "Loan") of \$269,031, from a bank, to repay the outstanding balance on a revolving line of credit at an interest rate of 5% per annum. The Loan, scheduled to mature on January 13, 2014, was paid off on April 12, 2012 from the proceeds of a new five-year term loan from the same bank. The Loan was secured by a first priority security interest granted to the lender in all deposit accounts maintained with the lender and other personal property of CFC, paper chattel, instruments, letter of credit rights, and healthcare insurance receivables. The balance on the Loan was \$0 and \$232,994 as of December 31, 2012 and 2011, respectively. Interest expense on the Loan was approximately \$7,959 and \$ 11,726 for the years ended December 31, 2012 and 2011, respectively

On December 29, 2011, CFC obtained an interim one-month working capital loan (the "Note") of \$350,000 from a bank at a variable interest rate of prime plus 1.25% per annum. The Note was fully drawn down as of December 31, 2011. The Note, secured by a certificate of deposit maintained with the lender in the same amount, was repaid on April 12, 2012 from the proceeds of a new five-year term loan from the same bank. Interest expense on the Note for the year ended December 2012 was approximately \$3,313.

On April 10, 2012, CFC obtained a five-year term loan of \$588,000 (the "New Note") from a bank at a fixed interest rate of 5.447% per annum to pay off the two loans discussed in the preceding paragraphs. The New Note is secured by the JP McGovern Community Sports and Recreation Center. Interest expense on the New Note was approximately \$23,545 for the year ended December 31, 2012. The outstanding principal balance was \$582,225 as of December 31, 2012. The new Note will mature on April 10, 2017. Payments on the New Note are scheduled to occur as follows:

Payment Stream	Number of Payments	Amount	Frequency of Payment
1	6	Interest only	Monthly, beginning 05-10-2012
2	53	\$ 5,595	Monthly, beginning 11-10-2012
3	1	\$ 417,023	One Payment: 04-10-2017

COMMUNITY FAMILY CENTERS

NOTES TO FINANCIAL STATEMENTS

**DECEMBER 31, 2012
(WITH COMPARATIVE DISCLOSURES FOR 2011)**

Future principal and interest payments on the New Note are as follows:

<u>Year Ending December 31</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2013	35,883	31,253	67,136
2014	37,915	29,220	67,135
2015	40,063	27,073	67,136
2016	42,260	24,876	67,136
2017	426,104	7,702	433,806
Total	<u>\$ 582,225</u>	<u>\$ 120,124</u>	<u>\$ 702,349</u>

6. TEMPORARILY RESTRICTED NET ASSETS

Temporarily restricted net assets are available for use in programs specified by donors. Net assets released from donor restrictions for the years ended December 31, 2012 and 2011 are attributable to expenses incurred in connection with these specific programs.

Temporarily restricted net assets released from restrictions and reclassified to unrestricted net assets during the years ended December 31, 2012 and 2011 are as follows:

	<u>2012</u>	<u>2011</u>
Capital Campaign	\$ -	\$ 1,298,456
United Way of Greater Houston	644,590	656,170
Houston Read Commission	6,314	4,275
Sisters of Charity	25,000	-
Rebuilding Together, Inc	3,075	-
Emergency Food and Shelter National Board Program	44,709	69,851
Total	<u>\$ 723,688</u>	<u>\$ 2,028,752</u>

Temporarily restricted net assets as of at December 31, 2012 and 2011 are as follows:

	<u>2012</u>	<u>2011</u>
Capital Campaign	\$ 417,980	\$ 417,980
United Way of Greater Houston	160,731	160,731
Houston Read Commission	2,199	2,927
Sisters of Charity	25,000	-
Rebuilding Together, Inc.	4,925	-
Emergency Food and Shelter National Board Program	-	11,117
Total	<u>610,835</u>	<u>592,755</u>

COMMUNITY FAMILY CENTERS

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2012
(WITH COMPARATIVE DISCLOSURES FOR 2011)

7. RISKS AND UNCERTAINTIES

Cash balances in non-interest bearing transaction accounts (NIBTA) are fully insured by the FDIC under Section 343 of the Dodd-Frank Wall Street and Consumer Protection Act of 2010. Cash balances of approximately \$419,505 and \$370,165 in NIBTA as of December 31, 2012 and 2011, respectively, were fully insured by the FDIC. Approximately \$299,790 and \$100,000 of balances in money market accounts with banks as of December 31, 2012 and 2011, respectively, was not insured by FDIC or otherwise secured. Management believes that the risk of loss is not significant because of the underlying strength and credit worthiness of the financial institutions in which these deposits were held.

69% and 19% of the CFC's revenues for the year ended December 31, 2012 were from federal sources and UWGH, respectively. For year ended December 31, 2011, 74% and 17% of revenues came from federal sources and UWGH, respectively. Loss of funds from these sources would have a material impact on the future operations of CFC.

Receivables from federal grants and UWGH accounted for almost 92% and 98% of total receivables at December 31, 2012 and 2011, respectively. Management believes that credit risks related to these receivables are low because of the credit worthiness of federal funding agencies and UWGH.

8. OPERATING LEASE COMMITMENTS

CFC leases office space under non-cancellable operating leases for its adult and early childhood education programs. In addition, CFC leased printers and copiers under four separate non-cancellable operating lease agreements. Three of these leases will expire on October 29, 2013. The fourth lease expires on March 9, 2017.

Future minimum lease obligations are as follows:

	<u>Year Ending December 31</u>	<u>Total</u>
2013		72,855
2014		72,528
2015		4,284
2016		4,284
2017		714
Total		<u>\$ 154,665</u>

COMMUNITY FAMILY CENTERS

NOTES TO FINANCIAL STATEMENTS

**DECEMBER 31, 2012
(WITH COMPARATIVE DISCLOSURES FOR 2011)**

Operating lease expense recorded in the statement of activities for the years ended December 31, 2012 and 2011 was \$83,257 and \$67,780, respectively.

9. SUBSEQUENT EVENTS

Management evaluated events subsequent to December 31, 2012, to assess the need for potential recognition or disclosures in the financial statements, through May 10, 2013, which is the date the financial statements were available to be issued, and determined that no subsequent event occurred that requires recognition or additional disclosure in the financial statements.

OTHER FINANCIAL INFORMATION SECTION

COMMUNITY FAMILY CENTERS
STATEMENT OF FUNCTIONAL EXPENSES
YEAR ENDED DECEMBER 31, 2012

(WITH SUMMARIZED FINANCIAL INFORMATION FOR THE YEAR ENDED DECEMBER 31, 2011)

	2012										2011		
	Program Services					Supporting Services					Total	Total	Total
	Youth Services	Adult Education	Family Support Services	Early Childhood Education	Total Program Services	Management & General	Fundraising	Supporting Services	Total	Total			
Salaries	\$ 825,455	\$ 928,327	\$ 246,295	\$ 285,603	\$ 2,285,680	\$ 2,981	\$ 71,776	\$ 74,757	\$ 2,360,437	\$ 2,379,572			
Employee benefits	54,575	59,852	14,903	13,597	142,927	-	5,742	5,742	148,669	184,450			
Payroll taxes	72,231	82,247	22,551	26,039	203,068	3,057	5,965	9,022	212,090	202,440			
Total payroll costs	952,261	1,070,426	283,749	325,239	2,631,675	6,038	83,483	89,521	2,721,196	2,766,462			
Contract services	23,062	6,863	1,706	1,802	33,433	7,133	18,000	25,133	58,566	65,598			
Direct assistance	6,438	-	56,867	14,297	77,602	-	-	-	77,602	99,677			
Occupancy costs	-	51,183	-	24,516	75,699	-	-	-	75,699	61,287			
Travel and meetings	28,568	6,302	263	569	35,702	2,815	544	3,359	39,061	27,147			
Facilities and equipment	26,405	18,858	8,016	4,271	57,550	3,290	101	3,391	60,941	124,454			
Supplies	41,298	26,722	2,855	5,552	76,427	3,117	1,131	4,248	80,675	52,135			
Utilities	43,955	20,249	6,608	-	70,812	14	-	14	70,826	59,504			
Postage and shipping	221	274	111	109	715	-	1,048	1,048	1,763	979			
Telephone	12,435	12,127	1,052	6,558	32,172	74	-	74	32,246	25,270			
Insurance	12,806	14,896	3,414	4,418	35,534	281	-	281	35,815	52,340			
Bank and other fees	4,930	5,836	1,404	1,716	13,886	8,399	26	8,425	22,311	20,774			
Interest expense	-	-	-	-	-	36,217	-	36,217	36,217	13,752			
Depreciation	105,864	17,163	6,082	2,102	131,211	14,294	-	14,294	145,505	93,585			
Other expenses	3,953	805	1,718	574	7,050	13,970	3,585	17,555	24,605	16,840			
Total non-payroll expenses	309,935	181,278	90,096	66,484	647,793	89,604	24,435	114,039	761,832	713,342			
Total expenses	\$ 1,262,196	\$ 1,251,704	\$ 373,845	\$ 391,723	\$ 3,279,468	\$ 95,642	\$ 107,918	\$ 203,560	\$ 3,483,028	\$ 3,479,804			

COMMUNITY FAMILY CENTERS
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
YEAR ENDED DECEMBER 31, 2012

Federal Grantor/Pass-Through Grantor/Program Title	Federal CFDA Number	Award/Federal Grant Number	Federal Expenditures
U.S. Department of Education			
Pass-Through Texas Education Agency			
Pass-Through Houston Community College System			
Adult Education - Basic Grants to State	84.002	HCC 2011-2012	624,494
Adult Education - Basic Grants to State	84.002	HCC 2012-2013	<u>\$ 492,776</u>
Total Department of Education			<u>1,117,270 *</u>
U.S. Department of Agriculture			
Pass-Through Texas Department of Agriculture			
Child and Adult Care Food Program	10.558	75K4014	<u>41,047</u>
Total U.S. Department of Agriculture			<u>41,047</u>
U.S. Department of Health and Human Services			
Pass-Through Texas Health and Human Services			
Block Grants for Prevention and Treatment of Substance Abuse	93.959	2012-038925-001-YPI	316,206
Block Grants for Prevention and Treatment of Substance Abuse	93.959	2013- 041575-001-YPI	147,363
Block Grants for Prevention and Treatment of Substance Abuse	93.959	2012-038848-001-YPU	355,662
Block Grants for Prevention and Treatment of Substance Abuse	93.959	2013-041373 -001-YPU	<u>168,371</u>
Total U.S. Department of Health and Human Services			<u>987,602</u>
U.S. Department of Homeland Security			
Pass-Through United Way of Greater Houston			
Emergency Food and Shelter National Board Program	97.024	Phase 29	11,117
Emergency Food and Shelter National Board Program	97.024	Phase 30	<u>33,592</u>
Total U.S. Department of Homeland Security			<u>44,709</u>
U.S. Department of Housing and Urban Development			
Pass-Through Child Care Council of Greater Houston			
Community Development Block Grants/Entitlement Grants	14.218	CDBG CC 12	<u>57,362</u>
Total U.S. Department of Housing and Urban Development			<u>57,362</u>
Total Expenditures of Federal Awards			<u><u>\$ 2,247,990</u></u>

* Denotes a major program

COMMUNITY FAMILY CENTERS

NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

DECEMBER 31, 2012

The Organization

Community Family Centers (CFC) receives federal grants to carry out its programs and services for low-income families in the East End of Houston and its surrounding communities.

Basis of Presentation

The accompanying schedule of expenditures of federal awards (the "Schedule") includes the federal grant activities of CFC. The information in the Schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Expenditures reported in the Schedule are reported on the accrual basis of accounting. These expenditures are recognized following the cost principles contained in OMB Circular A-122, *Cost Principles for Non-Profit Organizations*, under which certain types of expenditures are not allowable or are limited as to reimbursement. Because the Schedule presents only a selected portion of CFC's operations, it is not intended to and does not present its financial position, changes in net assets or cash flows as of and for the year ended December 31, 2012.

Relationship of the Schedule to Financial Reports Submitted to Grant Awarding Agencies

Expenditures included in the Schedule may differ from amounts reflected in the financial reports submitted to grant awarding agencies because of the following reasons:

- Expenses accrued at the end of CFC's fiscal year may not be included in the financial reports submitted to grant awarding agencies until after year end;
- Program matching costs that are reported in the financial reports submitted to awarding agencies are not included in the amounts reported in the Schedule; and
- Differences may exist between grant periods and CFC's accounting period.

Contingencies

Grants require the fulfillment of certain conditions set forth in grant agreements and are regularly monitored and reviewed by grantors. Failure to satisfy the requirements of contact agreements could result in disallowed costs and return of funds to grantors. Management believes that CFC is in substantial compliance with grant provisions and requirements and that disallowed costs, if any, will not be significant to affect the amounts and disclosures in the financial statements.

**OMB CIRCULAR A-133
SUPPLEMENTAL REPORTS SECTION**



**INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL
OVER FINANCIAL REPORTING AND ON COMPLIANCE AND
OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL
STATEMENTS PERFORMED IN ACCORDANCE WITH
GOVERNMENT AUDITING STANDARDS**

Management and Board of Directors
Community Family Centers

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of Community Family Centers (CFC), which comprise the statement of financial position as of December 31, 2012, and the related statements of activities, and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated May 10, 2013.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered CFC's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of CFC's internal control. Accordingly, we do not express an opinion on the effectiveness of CFC's internal control.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether CFC's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Abi - Bankole, P. C.

Houston, Texas
May 10, 2013



**INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR
EACH MAJOR PROGRAM; AND REPORT ON INTERNAL
CONTROL OVER COMPLIANCE IN ACCORDANCE
WITH OMB CIRCULAR A-133**

Management and Board of Directors
Community Family Centers

Report on Compliance for Each Major Federal Program

We have audited the compliance of Community Family Centers (CFC) with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that could have a direct and material effect on each of CFC's major federal programs for the year ended December 31, 2012. CFC's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with the requirements of laws, regulations, contracts, and grants applicable to its federal programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of CFC's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about CFC's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination of CFC's compliance.

Opinion on Each Major Program

In our opinion, CFC complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended December 31, 2012.

Report on Internal Control over Compliance

Management of CFC is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered CFC's internal control over compliance with the types of compliance requirements that could have a direct and material effect on a major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of CFC's internal control over compliance.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. *A material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. *A significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Purpose of this Report

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.

Abm Bankole, P.C.

Houston, Texas
May 10, 2013

COMMUNITY FAMILY CENTERS
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED DECEMBER 31, 2012

PART 1: SUMMARY OF AUDITOR'S RESULTS

Financial Statements Section:

Type of auditor's report issued:	Unmodified
Internal control over financial reporting:	
Material weakness(es) identified?	No
Significant deficiency(ies) identified?	None reported
Noncompliance material to financial statements noted?	No

Federal Awards Section:

Internal control over major programs:	
Material weakness(es) identified?	No
Significant deficiency(ies) identified?	None reported
Type of auditor's report issued on compliance for major programs:	Unmodified
Any audit findings disclosed that are required to be reported in accordance with OMB Circular A-133, Section .510(a)?	No

Identification of major programs:

<u>CFDA Number</u>	<u>Name of Federal Program or Cluster</u>
84.002	Adult Education – Basic Grants to States

Dollar threshold used to distinguish between Type A and B programs:	\$300,000
Auditee qualified as low-risk auditee under OMB Circular A-133, Section .530?	Yes

COMMUNITY FAMILY CENTERS

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

YEAR ENDED DECEMBER 31, 2012

PART 2: FINDINGS – FINANCIAL STATEMENT FINDING SECTION

This section identifies material weaknesses, significant deficiencies, fraud, illegal acts, violation of provisions of contracts and grant agreements, and abuse related to the financial statements for which *Government Auditing Standards* require reporting in a Circular A-133 audit.

No matters were reported.

PART 3: FEDERAL AWARD FINDINGS AND QUESTIONED COSTS SECTION

This section identifies the audit findings required to be reported by Circular A-133 section .510(a), such as material weaknesses, significant deficiencies, and material instances of noncompliance, including questioned costs, as well as any abuse findings involving federal awards that are material to a major program.

No matters were reported.

COMMUNITY FAMILY CENTERS
SUMMARY SCHEDULE OF PRIOR YEARS' AUDIT FINDINGS
YEAR ENDED DECEMBER 31, 2012

2011

There were no audit findings reported for the year ended December 31, 2011

2010

There were no audit findings reported for the year ended December 31, 2010.