AVIVA CHILDREN'S SERVICES, INC.

AUDITED FINANCIAL STATEMENTS
YEARS ENDED JUNE 30, 2015 AND 2014

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INDEPENDENT AUDITORS' REPORT

Board of Directors
Aviva Children's Services, Inc.
Tucson, Arizona

Report on the financial statements
We have audited the accompanying financial statements of Aviva Children's Services, Inc. (AVIVA) (an Arizona nonprofit organization), which comprise the statements of financial position as of June 30, 2015 and 2014, and the related statements of activities, functional expenses and cash flows for the years then ended, and the related notes to the financial statements.

Management's responsibility for the financial statements
Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America. This includes the design, implementation and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditors consider internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

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Opinion
In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Aviva Children's Services, Inc. as of June 30, 2015 and 2014, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

HBL CPAs, P.C.

HBL CPAs, P.C.

August 12, 2015

AVIVA CHILDREN'S SERVICES, INC.
STATEMENTS OF FINANCIAL POSITION
JUNE 30, 2015 AND 2014

	2015	2014
ASSETS		
Current assets:		
Cash and cash equivalents	$ 1,402,318	$ 1,112,103
Contracts receivable	438,817	484,283
Prepaid expenses	1,718	5,571
Total current assets	1,842,853	1,601,957
Property and equipment	2,185,119	1,820,506
Oil and gas interests	8,036	8,547
Intangible assets	600	3,000
	$ 4,036,608	$ 3,434,010
LIABILITIES AND NET ASSETS		
Current liabilities:		
Accounts payable	$ 10,228	$ 6,287
Accrued payroll and related taxes	119,847	115,664
Mortgage payable, current portion	24,300	22,646
	154,375	144,597
Mortgage payable	601,913	626,065
	756,288	770,662
Net assets:		
Unrestricted:		
Available for operations	1,523,461	1,370,738
Expended for property and equipment	1,558,906	1,171,795
Board designated for playground project	-	6,133
	3,082,367	2,548,666
Temporarily restricted	197,953	114,682
	3,280,320	2,663,348
	$ 4,036,608	$ 3,434,010

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

AVIVA CHILDREN'S SERVICES, INC.
STATEMENT OF ACTIVITIES
YEAR ENDED JUNE 30, 2015

	Unrestricted net assets	Temporarily restricted net assets	Total
Public support and revenues:			
Government vendor contracts	$ 2,425,633	$ -	$ 2,425,633
Contributions	381,226	167,185	548,411
Special events, net of $18,007 donor direct benefit costs	12,499	-	12,499
Interest income	609	-	609
Change in fair value of oil and gas interests	-	(511)	(511)
Oil and gas income	-	1,346	1,346
	2,819,967	168,020	2,987,987
Net assets released from restrictions	84,749	(84,749)	-
Total public support and revenues	2,904,716	83,271	2,987,987
Expenses:			
Program services	1,860,187	-	1,860,187
General and administrative	414,728	-	414,728
Fundraising	96,100	-	96,100
Total expenses	2,371,015	-	2,371,015
Change in net assets	533,701	83,271	616,972
Net assets, beginning of year	2,548,666	114,682	2,663,348
Net assets, end of year	$ 3,082,367	$ 197,953	$ 3,280,320

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

AVIVA CHILDREN'S SERVICES, INC.
STATEMENT OF ACTIVITIES
YEAR ENDED JUNE 30, 2014

	Unrestricted net assets	Temporarily restricted net assets	Total
Public support and revenues:			
Government vendor contracts	$ 2,546,263	$ -	$ 2,546,263
Contributions	149,314	64,116	213,430
Special events, net of $18,402 donor direct benefit costs	6,447	-	6,447
Interest income	328	-	328
Change in fair value of oil and gas interests	-	225	225
Oil and gas income	-	1,626	1,626
	2,702,352	65,967	2,768,319
Net assets released from restrictions	60,300	(60,300)	-
Total public support and revenues	2,762,652	5,667	2,768,319
Expenses:			
Program services	1,740,532	-	1,740,532
General and administrative	340,988	-	340,988
Fundraising	73,443	-	73,443
Total expenses	2,154,963	-	2,154,963
Change in net assets	607,689	5,667	613,356
Net assets, beginning of year	1,940,977	109,015	2,049,992
Net assets, end of year	$ 2,548,666	$ 114,682	$ 2,663,348

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

AVIVA CHILDREN'S SERVICES, INC.
STATEMENT OF FUNCTIONAL EXPENSES
YEAR ENDED JUNE 30, 2015

	Program services						
	Parent Aide programs	**Parent support programs**	**Community resources**	**Total program services**	**General and administrative**	**Fundraising**	**Total**
Salaries and wages	$ 1,004,422	$ 68,950	$ 69,216	$ 1,142,588	$ 249,456	$ 61,870	$ 1,453,914
Employee related expenses	181,428	9,140	17,830	208,398	45,818	8,810	263,026
	1,185,850	78,090	87,046	1,350,986	295,274	70,680	1,716,940
Depreciation and amortization	51,426	-	12,942	64,368	28,363	-	92,731
Direct assistance to individuals	-	-	77,795	77,795	10	-	77,805
Furniture and equipment	1,348	-	-	1,348	7,892	-	9,240
Insurance	11,192	-	3,052	14,244	6,106	-	20,350
Marketing and public relations	-	-	-	-	55	5,978	6,033
Miscellaneous	-	-	1,802	1,802	6,088	-	7,890
Mortgage interest	26,789	-	7,306	34,095	14,613	-	48,708
Office supplies and expenses	10,379	1,297	715	12,391	2,889	477	15,757
Other operating expenses	9,983	787	464	11,234	3,727	328	15,289
Postage and printing	50	171	101	322	4,785	10,695	15,802
Professional services	16,465	1,588	595	18,648	7,883	-	26,531
Program supplies	1,325	735	19,024	21,084	4,742	7,942	33,768
Rent	3,182	200	-	3,382	7,411	-	10,793
Repairs and maintenance	24,312	1,075	4,158	29,545	10,476	-	40,021
Telephone	11,824	2,364	2,243	16,431	4,404	-	20,835
Training	113	-	-	113	2,420	-	2,533
Travel	188,961	1,390	634	190,985	1,013	-	191,998
Utilities	8,968	-	2,446	11,414	6,577	-	17,991
Total expenses	$ 1,552,167	$ 87,697	$ 220,323	$ 1,860,187	$ 414,728	$ 96,100	$ 2,371,015

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

AVIVA CHILDREN'S SERVICES, INC.
STATEMENT OF FUNCTIONAL EXPENSES
YEAR ENDED JUNE 30, 2014

	Program services						
	Parent Aide programs	**Parent support programs**	**Community resources**	**Total program services**	**General and administrative**	**Fundraising**	**Total**
Salaries and wages	$ 1,001,039	$ 43,055	$ 55,332	$ 1,099,426	$ 193,255	$ 53,950	$ 1,346,631
Employee related expenses	172,576	5,528	12,707	190,811	34,093	9,493	234,397
	1,173,615	48,583	68,039	1,290,237	227,348	63,443	1,581,028
Depreciation and amortization	47,322	-	12,906	60,228	28,501	-	88,729
Direct assistance to individuals	13	-	59,013	59,026	-	57	59,083
Furniture and equipment	794	1,426	-	2,220	4,612	-	6,832
Insurance	6,482	-	1,768	8,250	3,535	-	11,785
Marketing and public relations	-	-	-	-	3,110	1,500	4,610
Miscellaneous	50	-	1,436	1,486	3,660	-	5,146
Mortgage interest	27,547	-	7,513	35,060	15,026	-	50,086
Office supplies and expenses	6,677	2,852	678	10,207	2,075	251	12,533
Other operating expenses	8,175	579	668	9,422	3,933	25	13,380
Postage and printing	205	189	-	394	6,848	4,865	12,107
Professional services	11,238	1,289	483	13,010	16,150	-	29,160
Program supplies	2,577	3,025	7,005	12,607	1,324	2,957	16,888
Rent	5,303	-	2,200	7,503	1,630	-	9,133
Repairs and maintenance	20,259	1,032	3,168	24,459	9,804	315	34,578
Telephone	10,726	-	1,916	12,642	4,870	-	17,512
Training	141	1,113	78	1,332	2,106	30	3,468
Travel	179,191	312	388	179,891	1,074	-	180,965
Utilities	9,867	-	2,691	12,558	5,382	-	17,940
Total expenses	$ 1,510,182	$ 60,400	$ 169,950	$ 1,740,532	$ 340,988	$ 73,443	$ 2,154,963

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

AVIVA CHILDREN'S SERVICES, INC.
STATEMENTS OF CASH FLOWS
YEARS ENDED JUNE 30, 2015 AND 2014

	2015	2014
Cash flows from operating activities:		
Change in net assets	$ 616,972	$ 613,356
Adjustments to reconcile change in net assets to net cash from operating activities:		
Depreciation and amortization	92,731	88,729
Change in fair value of oil and gas interests	511	(225)
(Increase) decrease in operating assets:		
Contracts receivable	45,466	(250,627)
Prepaid expenses	3,853	1,045
Increase (decrease) in operating liabilities:		
Accounts payable	3,941	4,912
Accrued payroll and related taxes	4,183	37,917
Net cash provided by operating activities	767,657	495,107
Cash flows (used in) investing activities -		
Purchases of property and equipment	(454,944)	-
Cash flows (used in) financing activities -		
Payments on mortgage payable	(22,498)	(19,239)
Change in cash and cash equivalents	290,215	475,868
Cash and cash equivalents, beginning of year	1,112,103	636,235
Cash and cash equivalents, end of year	$ 1,402,318	$ 1,112,103
Supplemental cash flow information:		
Cash paid for interest	$ 48,708	$ 51,612

No cash paid for income taxes in 2015 or 2014.

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

NOTE 1 – Organization

Aviva Children's Services, Inc. (AVIVA) is a nonprofit organization incorporated in 1999. AVIVA's mission is to provide enhanced services to improve the quality of life for children in the care of Arizona's Department of Child Safety (DCS) who are victims of neglect, abuse and poverty. AVIVA's major sources of revenue are government grants and contracts. AVIVA's major programs are as follows:

- *Parent Aide programs* – Provides parenting training and individualized case work on issues to alleviate barriers to reunification of the family, as well as facilitating visits between foster children and their birth families.
- *Parent support programs* – Through outreach, resource and peer support, this program provides services to strengthen families who have met court directives and are currently reunited.
- *Community resources* – Provides support services to DCS staff in addition to mentoring, tutoring and life books to children in foster care. The program also provides basic needs for children in crisis through donated goods and the Abused Children's Fund.

NOTE 2 – Summary of significant accounting policies

Financial statement presentation

AVIVA is required under generally accepted accounting principles to report information regarding its financial position and activities according to three classes of net assets: unrestricted, temporarily restricted and permanently restricted.

Use of estimates

The preparation of financial statements in conformity with 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 financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Cash and cash equivalents

AVIVA considers all cash and highly liquid investments with an original maturity of three months or less to be cash equivalents. AVIVA maintains its cash in bank deposit accounts which may exceed federally insured limits. At June 30, 2015, cash in excess of insured limits totaled $62,651.

Contracts receivable

Contracts and grants receivable are stated at the amount that AVIVA expects to collect from various governmental and foundation entities on outstanding balances. Management believes that all such receivables are fully collectible, and accordingly has recorded no valuation allowance for doubtful receivables.

Property and equipment

AVIVA capitalizes all expenditures for property and equipment in excess of $1,000 with a useful life greater than one year. Purchased property and equipment are carried at cost. Donated property and equipment are carried at the approximate fair value at the date of donation. Depreciation is calculated using the straight-line method over the estimated useful life of the asset.

NOTE 2 – Summary of significant accounting policies, continued

Oil and gas interests

Oil and gas interests are valued at a multiple of prior year earnings based upon estate valuation guidance issued by the Internal Revenue Service.

Intangible assets

Intangible assets are valued at historical cost. The website design, which was purchased in October 2010, is being amortized on a straight-line basis over its estimated useful life of 5 years.

Contributions/restricted revenue

Contributions that are restricted by the donor are reported as increases in unrestricted net assets if the restrictions expire (that is, when a stipulated time restriction ends or purpose restriction is accomplished) in the reporting period in which the revenue is 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.

Donated goods, facilities and services

Donated goods and facilities are valued at their fair market value. Donated services are recognized in the financial statements at their fair market value if the following criteria are met:

- The services require specialized skills and the services are provided by individuals possessing those skills.
- The services would typically need to be purchased if not donated.

Although AVIVA utilizes the services of many outside volunteers, the fair value of these services is not recognized in the accompanying financial statements since they do not meet the criteria for recognition under generally accepted accounting principles.

Income tax status

AVIVA is exempt from Federal income tax under Section 501(c)(3) of the Internal Revenue Code. However, income from certain activities not directly related to AVIVA's tax-exempt purpose may be subject to taxation as unrelated business income. In addition, AVIVA qualifies for the charitable contribution deduction under Section 170(b)(1)(A)(vi) and has been classified as an organization other than a private foundation under Section 509(a)(1).

In accordance with generally accepted accounting principles, AVIVA holds no uncertain tax positions and, therefore, has no policy for evaluating them. AVIVA's Form 990, *Return of Organization Exempt from Income Taxes*, is generally subject to examination by the Internal Revenue Service for three years after the date the returns were filed.

Functional expenses

The costs of providing the various program services and supporting activities of AVIVA have been summarized on a functional basis in the statement of activities. Accordingly, certain costs have been allocated among program and supporting services benefited.

NOTE 3 – Property and equipment

Property and equipment at June 30, 2015 and 2014 consisted of the following:

	2015	2014
Land	$ 211,000	$ 211,000
Building and improvements	2,258,418	1,782,025
Equipment, furniture and fixtures	153,610	150,192
	2,623,028	2,143,217
Construction in progress	-	24,867
Less accumulated depreciation	(437,909)	(347,578)
	$ 2,185,119	$ 1,820,506

NOTE 4 – Intangible assets

At June 30, 2015 and 2014, intangible assets consisted of the following:

	2015	2014
Website design	$ 12,000	$ 12,000
Less accumulated amortization	(11,400)	(9,000)
	$ 600	$ 3,000

NOTE 5 – Mortgage payable

AVIVA has a mortgage note payable with a financial institution secured by real property. Payments on the mortgage payable are $5,934 per month, including interest, for 119 months with a final payment of $503,442 due at maturity in January 2020. The mortgage payable carries a variable interest rate of index plus 2% with a minimum rate of 7.5% (7.5% at both June 30, 2015 and 2014). Future maturities of the mortgage payable are as follows at June 30, 2015:

Year ending June 30, 2016	$ 24,300
2017	26,343
2018	28,418
2019	30,655
2020	516,497
	$ 626,213

NOTE 6 – Temporarily restricted net assets

Temporarily restricted net asset activity was as follows during the year ended June 30, 2015:

	Beginning balance	Contributions	Oil and gas income	Change in value of oil and gas interests	Releases	Ending balance
Abused children's fund	$ 114,682	$ 66,343	$ 1,346	$ (511)	$ (73,816)	$ 108,044
Lifebooks/Bags for Kids	-	100,842	-	-	(10,933)	89,909
	$ 114,682	$ 167,185	$ 1,346	$ (511)	$ (84,749)	$ 197,953

NOTE 7 – Operating leases

AVIVA leases office equipment under a non-cancelable operating lease expiring August 2017 and facilities and storage space under month-to-month operating leases. Rental expense for the years ended June 30, 2015 and 2014 was $9,133 and $12,324 respectively. Future minimum payments are as follows:

Year ending June 30, 2016	$ 1,139
2017	854
	$ 1,993

NOTE 8 – Retirement plans

Through December 2011, AVIVA provided a Simple IRA plan for employees who have one year of service and at least $5,000 in payroll in the preceding year. AVIVA matched up to 3% of gross payroll for eligible employees who have joined and contributed to the plan. The plan was terminated at the end of the calendar year.

Beginning January 2012, AVIVA provides a 403(b) plan for employees who have one year of service and are at least 21 years of age. After one full year of employment, AVIVA matches up to 3% of gross payroll for eligible employees who have joined and contributed to the plan.

Retirement expense totaled $32,407 and $25,300, respectively, for the years ended June 30, 2015 and 2014.

NOTE 9 – Fair value measurements

Fair value measurements are determined based on the assumptions, referred to as inputs, that market participants would use in pricing the asset. The fair value hierarchy distinguishes between market participant assumptions and AVIVA's own assumptions about market participant assumptions. Observable inputs are assumptions based on market data obtained from independent sources; while unobservable inputs are AVIVA's own assumptions about what market participants would assume based on the best information available in the circumstances.

Level 1 inputs. A quoted price in an active market for an identical asset or liability is considered to be the most reliable evidence of fair value. AVIVA does not utilize Level 1 inputs.

Level 2 inputs. These are observable inputs, either directly or indirectly, other than quoted prices included within Level 1. AVIVA does not utilize Level 2 inputs.

Level 3 inputs. These inputs are unobservable and are used to measure fair value only when observable inputs are not available. See Note 2 for valuation method for oil and gas interests.

Fair values of assets measured on a recurring basis using significant unobservable inputs (Level 3) at June 30, 2015 and 2014 consisted of the following:

	Level 3 2015	Level 3 2014
Oil and gas interests	$ 8,036	$ 8,547

NOTE 9 – Fair value measurements, continued

Activity for these Level 3 assets for the year ended June 30, 2015 was as follows:

	Beginning balance	Change in fair value	Ending balance
Oil and gas interests	$ 8,547	$ (511)	$ 8,036

Activity for these Level 3 assets for the year ended June 30, 2014 was as follows:

	Beginning balance	Change in fair value	Ending balance
Oil and gas interests	$ 8,322	$ 225	$ 8,547

NOTE 10 – Concentration of risk

AVIVA participates in federal and state assisted grant and contract programs. For both years ended June 30, 2015 and 2014, 79% of total revenue was received from one government agency.

NOTE 11 – Subsequent events

Subsequent events have been evaluated through August 12, 2015, which is the date the financial statements were available to be issued.