

**CHRISTIAN FAMILY CARE AGENCY, INC.**

**Consolidated Financial Statements  
September 30, 2016  
With Independent Auditors' Report**

**CHRISTIAN FAMILY CARE AGENCY, INC.**

**TABLE OF CONTENTS**

	<u>Page</u>
<b>Independent Auditors' Report</b>	1
<b>Financial Statements</b>	
Consolidated Statement of Financial Position	2
Consolidated Statement of Activities	3
Consolidated Statement of Functional Expenses	4
Consolidated Statement of Cash Flows	5
Notes to Consolidated Financial Statements	6 – 15
<b>Supplemental Information</b>	
Independent Auditors' Report on Consolidating Information	17
Consolidating Schedule of Assets, Liabilities and Net Assets	18
Consolidating Schedule of Revenues, Expenses and Changes in Net Assets	19

Romek, Sanders & Company, P.C.  
Certified Public Accountants

Members of American Institute of Certified Public Accountants  
and Arizona Society of Certified Public Accountants

**INDEPENDENT AUDITORS' REPORT**

To the Board of Directors  
Christian Family Care Agency, Inc.

We have audited the accompanying consolidated financial statements of Christian Family Care Agency, Inc. (an Arizona corporation, not for profit), which comprise the consolidated statement of financial position as of September 30, 2016, and the related consolidated statements of activities, functional expenses and cash flows for the year ended, and the related notes to the consolidated financial statements.

**Management's Responsibility for the 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 audit. We conducted our audit 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 Christian Family Care Agency, Inc. as of September 30, 2016, and the results of its operations and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

*Romek, Sanders & Company, P.C.*

January 17, 2017

CHRISTIAN FAMILY CARE AGENCY, INC.  
Consolidated Statement of Financial Position  
September 30, 2016

ASSETS

Cash and cash equivalents	\$	2,665,894
Investments		345,304
Prepaid expenses		16,528
Accounts receivable		683,916
Investment restricted for deferred compensation plan		184,738
Investments restricted for charitable trust		1,499,434
Land, buildings and equipment, at cost, less accumulated depreciation		729,393
Other assets		<u>15,076</u>
Total assets	\$	<u><u>6,140,283</u></u>

LIABILITIES

Accounts payable	\$	99,827
Accrued liabilities		
Payroll and other benefits		347,071
Deferred compensation liability		184,738
Interest		1,218
Unearned revenue		28,171
Capital lease payable		3,952
Note payable		360,244
Agency fund		<u>7,565</u>
Total liabilities		<u>1,032,786</u>

NET ASSETS

Unrestricted		
Undesignated		3,098,261
Designated		56,665
Investment in land, buildings and equipment		<u>365,197</u>
		3,520,123
Temporarily restricted		<u>1,587,374</u>
Total net assets		<u>5,107,497</u>
Total liabilities and net assets	\$	<u><u>6,140,283</u></u>

The accompanying notes are an integral part of this statement

CHRISTIAN FAMILY CARE AGENCY, INC.  
Consolidated Statement of Activities  
For the Year Ended September 30, 2016

	Unrestricted	Temporarily Restricted	Total
<b>REVENUES AND SUPPORT</b>			
Service fees	\$ 6,533,107	\$ -	\$ 6,533,107
Contributions	2,109,451	203,969	2,313,420
Thrift store sales	343,914	-	343,914
Special events	57,577	-	57,577
Interest and dividends	10,559	30,140	40,699
Realized and unrealized gains, net	15,561	113,432	128,993
Other	234	-	234
Net asset released from restrictions:			
Satisfaction of program and supporting activities	235,562	(235,562)	-
Total revenues and support	<u>9,305,965</u>	<u>111,979</u>	<u>9,417,944</u>
<b>EXPENSES</b>			
Program services	<u>6,821,556</u>	-	<u>6,821,556</u>
Supporting activities			
Fundraising	443,509	-	443,509
General and administrative	<u>700,795</u>	-	<u>700,795</u>
Total supporting activities	<u>1,144,304</u>	-	<u>1,144,304</u>
Total expenses	<u>7,965,860</u>	-	<u>7,965,860</u>
CHANGE IN NET ASSETS	1,340,105	111,979	1,452,084
NET ASSETS, beginning of year	<u>2,180,018</u>	<u>1,475,395</u>	<u>3,655,413</u>
NET ASSETS, end of year	<u>\$ 3,520,123</u>	<u>\$ 1,587,374</u>	<u>\$ 5,107,497</u>

The accompanying notes are an integral part of this statement

**This page was left blank intentionally**

CHRISTIAN FAMILY CARE AGENCY, INC.  
Consolidated Statement of Functional Expenses  
For the Year Ended September 30, 2016

	Program Services				
	Adoption/ Pregnancy	Counseling	Foster Care	Visitation	Other
Salaries	\$ 734,990	\$ 480,870	\$ 1,868,663	\$ 674,213	\$ 151,961
Employee benefits and taxes	150,827	84,308	299,058	100,826	28,879
Total salaries and related benefits	885,817	565,178	2,167,721	775,039	180,840
Professional services	152	-	1,531	-	-
Printing and marketing	13,942	1,152	11,099	-	685
Office	49,460	36,332	88,505	13,820	5,079
Facilities	19,727	18,196	44,312	17,814	3,571
Rent	-	6,305	-	8,738	-
Insurance	18,029	13,500	35,616	7,730	3,289
Training and other employee related	13,378	7,635	5,566	897	2,223
Travel and transportation	33,146	13,058	98,591	197,493	2,494
Dues and subscriptions	2,632	640	5,914	5,102	3,402
Birth parent living and legal fees	82,748	-	-	-	-
Therapeutic foster and respite care	-	647,328	178,091	-	-
Foster care recruitment and training	18,100	296	37,141	-	-
Special events	-	-	-	-	-
Banking fees	-	-	-	-	-
Interest	4,434	3,071	8,882	1,774	790
Property taxes	-	-	-	-	-
Bad debts	2,560	2,257	24,298	3,660	-
Depreciation	14,937	11,753	29,907	4,145	1,845
Other	-	8,061	34,911	14,617	1,342
Total expenses	\$ 1,159,062	\$ 1,334,762	\$ 2,772,085	\$ 1,050,829	\$ 205,560

The accompanying notes are an integral part of this statement

**Supporting Activities**

Thrift Stores	Total Program Services	Fundraising	General and Administrative	Total Supporting Activities	Total
\$ 108,828	\$ 4,019,525	\$ 176,665	\$ 337,832	\$ 514,497	\$ 4,534,022
24,403	688,301	29,718	71,980	101,698	789,999
133,231	4,707,826	206,383	409,812	616,195	5,324,021
-	1,683	3,997	75,789	79,786	81,469
1,208	28,086	124,521	16,885	141,406	169,492
16,089	209,285	44,105	54,132	98,237	307,522
19,292	122,912	3,976	18,572	22,548	145,460
116,902	131,945	-	2,643	2,643	134,588
-	78,164	2,934	17,314	20,248	98,412
-	29,699	319	20,473	20,792	50,491
6,939	351,721	39	1,806	1,845	353,566
-	17,690	317	4,874	5,191	22,881
-	82,748	-	-	-	82,748
-	825,419	-	-	-	825,419
-	55,537	-	-	-	55,537
-	-	25,230	-	25,230	25,230
4,675	4,675	27,940	27,464	55,404	60,079
-	18,951	713	4,564	5,277	24,228
-	-	-	22,770	22,770	22,770
-	32,775	-	-	-	32,775
922	63,509	1,666	15,479	17,145	80,654
-	58,931	1,369	8,218	9,587	68,518
<u>\$ 299,258</u>	<u>\$ 6,821,556</u>	<u>\$ 443,509</u>	<u>\$ 700,795</u>	<u>\$ 1,144,304</u>	<u>\$ 7,965,860</u>



CHRISTIAN FAMILY CARE AGENCY, INC.  
Consolidated Statement of Cash Flows  
For the Year Ended September 30, 2016

<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>	
Change in net assets	\$ 1,452,084
Adjustments to reconcile change in net assets to net cash provided by operating activities	
Depreciation	80,654
Interest, realized and unrealized gains restricted for charitable trust	(143,572)
Unrealized gains on investments	(81,417)
Changes in assets and liabilities, net	
(Increase) decrease in assets:	
Prepaid expenses	6,207
Accounts receivable	195,646
Other assets	(2,576)
Increase (decrease) in liabilities:	
Accounts payable	(26,167)
Payroll and other benefits	62,862
Unearned revenue	(14,257)
Agency fund	(102)
Total adjustments	<u>77,278</u>
Net cash provided by operating activities	<u>1,529,362</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>	
Purchase of investments	(120,500)
Distributions from charitable trust	63,157
Purchases of property and equipment	<u>(16,033)</u>
Net cash (used) by investing activities	<u>(73,376)</u>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>	
Payments on capital lease payable	(10,914)
Payments on note payable	<u>(13,198)</u>
Net cash (used) by financing activities	<u>(24,112)</u>
NET INCREASE IN CASH AND CASH EQUIVALENTS	1,431,874
CASH AND CASH EQUIVALENTS, beginning of year	<u>1,234,020</u>
CASH AND CASH EQUIVALENTS, end of year	<u><u>\$ 2,665,894</u></u>

The accompanying notes are an integral part of this statement

CHRISTIAN FAMILY CARE AGENCY, INC.  
Notes to Consolidated Financial Statements  
September 30, 2016

**NOTE 1 – Description of Organization and Summary of Significant Accounting Policies**

**Description of Organization**

Christian Family Care Agency, Inc. (“CFC”) was incorporated in March 1982 in the State of Arizona as a not for profit corporation. CFC is a social services organization that provides adoption, foster care and counseling programs focused on meeting the needs of pregnant women, children and families in Arizona. CFC has administrative and counseling offices and a thrift store in Phoenix and in Tucson.

During March 2006, the Arizona Children’s Legacy (the “Legacy”) was incorporated as a separate not for profit corporation. The Legacy was created to operate exclusively as a “support organization” to perform the charitable functions of, and carry out the charitable purposes of CFC. The Legacy includes three limited liability companies which are solely-owned by the Legacy, which own real property and are responsible for the maintenance of these properties.

CFC is under contract with the Arizona Department of Child Safety (DCS) and Arizona Department of Economic Security Division of Development Disabilities (DDD) to provide certain client services to families and individuals within the programs. This income is subject to specific compliance and delivery of service requirements, which are subject to review by the grantor. During the year ended September 30, 2016, CFC received 50% of its total consolidated revenues and support from services fees related to contracts with DCS and DDD.

**Consolidated Financial Statements**

The financial statements have been consolidated to include the accounts of Christian Family Care Agency, Inc., Arizona Children’s Legacy and the Legacy’s wholly owned subsidiaries. The statements are consolidated since CFC has both an economic and controlling interest in the Legacy.

For the year ended September 30, 2016, the consolidated activities of these entities are referred to as the “Organization” in these consolidated financial statements.

**Basis of Accounting**

The consolidated financial statements of the Organization have been prepared on the accrual basis of accounting and, accordingly, reflect all revenues when earned, rather than when received, and reflect all expenses when incurred, rather than when paid.

**Basis of Presentation**

The Organization reports information regarding its financial position and activities according to three classes of net assets as follows:

1. Unrestricted net assets – Net assets that are not subject to donor-imposed stipulations.
2. Temporarily restricted net assets – Net assets subject to donor-imposed stipulations that can be fulfilled by actions of the Organization pursuant to those stipulations or that expire by the passage of time.
3. Permanently restricted net assets – Net assets subject to donor-imposed stipulations that the assets be maintained permanently by the Organization with the income earned on the assets to be used in operations. There are no permanently restricted net assets at September 30, 2016.

CHRISTIAN FAMILY CARE AGENCY, INC.  
Notes to Consolidated Financial Statements  
September 30, 2016

**NOTE 1 – Description of Organization and Summary of Significant Accounting Policies** (continued)

**Temporarily Restricted Amounts**

Gifts of cash and other assets are reported as restricted support if they are received with donor stipulations that limit the use of the donated assets. When a donor restriction expires, that is, when a stipulated time restriction ends or purpose restriction is accomplished, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the consolidated statement of activities as net assets released from restrictions.

Gifts of land, buildings, and equipment are reported as unrestricted support unless explicit donor stipulations specify how the donated assets must be used. Gifts of long-lived assets with explicit restrictions that specify how the assets are to be used and gifts of cash or other assets that must be used to acquire long-lived assets are reported as restricted support. Absent explicit donor stipulations about how long those long-lived assets must be maintained, expirations of donor restrictions are reported when the donated or acquired long-lived assets are placed in service.

**Use of Estimates**

Management uses estimates and assumptions in preparing the consolidated financial statements. Those estimates and assumptions affect certain reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities, and the reported revenues and expenses. Actual results could differ from those estimates.

**Accounts Receivable**

Accounts receivable are stated at the amount management expects to collect from outstanding balances. The Organization provides for losses on accounts receivable using the allowance method. The allowance is based on management's assessment of the current status of individual accounts. The Organization's policy is to charge off uncollectible accounts receivable when management determines the receivables will not be collected.

**Cash and Cash Equivalents**

The Organization considers all highly liquid investments with an initial maturity of three months or less to be cash equivalents, unless the investments are restricted for the purchase of property and equipment, payment of long-term debt, or endowment.

**Donated Assets and Services**

Donated assets are recorded at fair value at the date of donation.

Donated services are recognized as contributions if the services (a) create or enhance nonfinancial assets or (b) require specialized skills, are performed by people with those skills, and would otherwise be purchased by the Organization. Total donated services received during the year ended September 30, 2016, was \$5,752 and is included in contributions.

In addition, a substantial number of unpaid volunteers have made significant contributions of their time to the Organization. However, these services were not reflected as contributions in the consolidated financial statements since the recognition criteria were not met.

CHRISTIAN FAMILY CARE AGENCY, INC.  
Notes to Consolidated Financial Statements  
September 30, 2016

**NOTE 1 – Description of Organization and Summary of Significant Accounting Policies** (continued)

**Expense Allocation**

The cost of providing programs and other activities has been summarized on a functional basis in the accompanying consolidated statements of activities and functional expenses. Directly identifiable expenses are charged to program services and supporting activities. Expenses related to more than one function are charged to program services and supporting activities on the basis of periodic expense studies. General and administrative expenses include those expenses that are not directly identifiable with any other specific function but provide for the overall support and direction of the Organization.

**Income Taxes**

CFC and Legacy are not for profit corporations that qualify as tax-exempt organizations under Internal Revenue Code Section 501(c)(3) and comparable state law.

As of September 30, 2016, CFC and Legacy had no uncertain tax positions that qualify for either recognition or disclosure in the consolidated financial statements. CFC and Legacy will recognize future accrued interest and penalties related to unrecognized tax benefits in income tax if incurred.

CFC's and Legacy's informational tax returns are subject to review and examination by federal and state authorities. The tax returns for the years ended September 30, 2013 to 2015 are open to examination by federal authorities and for the years ended September 30, 2012 to 2015 by state authorities.

**Investments and Investments Restricted for Charitable Trust**

The investments and investments restricted for charitable trust portfolios include cash and cash equivalents, U.S. Treasury notes, government agency bonds and notes, corporate and foreign bonds, and equity securities. The assets are presented in the consolidated financial statements at market value based on quoted market prices. Unrealized gains and losses are included in the change in net assets. Expenses relating to investment revenues, including investment advisory fees were \$21,407 for the year ended September 30, 2016, and have been netted with revenues in the accompanying consolidated statement of activities.

Investments are exposed to various risks, such as interest rate, market and credit risks. Due to the level of risk associated with certain investment securities, it is at least reasonably possible that changes in risks in the near term would materially affect account balances and the amounts reported in the consolidated financial statements.

**Land, Buildings and Equipment**

Land, buildings and equipment are stated at cost. The cost of maintenance and repairs is expensed as incurred; significant acquisitions and improvements which cost more than \$1,500 with a useful life of more than three years are capitalized.

Depreciation is computed using the straight-line method over the estimated useful lives of the assets as follows:

Buildings	25 years
Improvements	3 - 25 years
Equipment, fixtures and vehicles	3 - 7 years

CHRISTIAN FAMILY CARE AGENCY, INC.  
Notes to Consolidated Financial Statements  
September 30, 2016

**NOTE 1 – Description of Organization and Summary of Significant Accounting Policies** (continued)

**Supplementary Cash Flow Statement Disclosures**

Cash paid for interest during the year was \$24,228, none of which was capitalized. No cash was paid for income or excise taxes.

**NOTE 2 – Fair Value Measurements**

The Organization’s financial reporting includes a three tier fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (level 1 measurements) and lowest priority to unobservable inputs (level 3 measurements). The three levels of the fair value hierarchy are described below:

Level 1 – Inputs that utilize quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity 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 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.

The applicable assets and liabilities accounted for on a recurring basis under the fair value hierarchy at September 30, 2016, as follows:

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
<b>Assets</b>				
<b>Investments</b>				
Equity securities	\$ 103,281	\$ 0	\$ 0	\$ 103,281
Fixed income	0	217,002	0	217,002
Government securities	<u>0</u>	<u>25,021</u>	<u>0</u>	<u>25,021</u>
	<u>103,281</u>	<u>242,023</u>	<u>0</u>	<u>345,304</u>
<b>Investment restricted for deferred compensation plan</b>				
Single premium immediate annuity	<u>0</u>	<u>0</u>	<u>184,738</u>	<u>184,738</u>

CHRISTIAN FAMILY CARE AGENCY, INC.  
Notes to Consolidated Financial Statements  
September 30, 2016

**NOTE 2 – Fair Value Measurements** (continued)

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Investments restricted for charitable trust				
Cash equivalents	\$ 63,444	\$ 0	\$ 0	\$ 63,444
Equity securities	1,095,521	0	0	1,095,521
Fixed income	0	340,469	0	340,469
	1,158,965	340,469	0	1,499,434
 Total assets	 \$ 1,262,246	 \$ 582,492	 \$ 184,738	 \$ 2,029,476
 Liabilities				
Deferred compensation liability	\$ 0	\$ 0	\$ 184,738	\$ 184,738
 Total liabilities	 \$ 0	 \$ 0	 \$ 184,738	 \$ 184,738

Fair values of investments and investments restricted for charitable trust are determined by the market approach, using quoted market prices for similar investments, yield curves, and other relevant information.

Fair value for the investment restricted for deferred compensation plan and the deferred compensation liability have been measured using the income approach based on calculating the present value of the estimated future distributions. This approach takes into account the determination of an appropriate risk-adjusted discount rate (3% at September 30, 2016), the life expectancy of the annuitant as calculated using the Social Security's life expectancy calculator, and the required distributions under the terms of the agreement and annuity purchased to fund the agreement. The Legacy remeasures the fair value of the asset and liability annually and adjusts the measurement inputs based on relevant data.

The table below presents information about the changes in the investment restricted for deferred compensation plan and the deferred compensation liability:

Balance, October 1, 2015	\$ 198,433
Distributions	(24,031)
Change in fair value	10,336
 Balance, September 30, 2016	 \$ 184,738

**NOTE 3 – Accounts Receivable**

Accounts receivable consists of the following:

DCS/DDD	\$ 647,088
Other	62,792
	709,880
Less allowance for doubtful accounts	(25,964)
	\$ 683,916

Accounts receivable more than ninety days old were approximately \$79,000 at September 30, 2016.

CHRISTIAN FAMILY CARE AGENCY, INC.  
Notes to Consolidated Financial Statements  
September 30, 2016

**NOTE 4 – Investment Restricted for Deferred Compensation Plan and Deferred Compensation Liability**

In September 2014, the Legacy approved a nonqualified deferred compensation plan and a related Rabbi Trust (the “Trust”) for the current executive director of the Legacy who was also the former executive director of CFC. The arrangement is in exchange for past services performed by the individual on behalf of CFC. To provide a source of funds to assist in meeting the liabilities under the arrangement, the Trust purchased a single premium immediate annuity with terms guaranteeing \$2,002 monthly payments for 10 years certain and life thereafter for the individual. The Legacy owns the Trust and is also the beneficiary for the purchased annuity.

**NOTE 5 – Investments Restricted for Charitable Trust**

In a prior year, the Organization was the recipient of a charitable trust. The charitable trust agreement states that distributions from the trust must be held as an Organization endowment fund to support future operational activity. Net assets associated with endowment funds, are classified and reported based on the existence or absence of donor-imposed restrictions.

The State of Arizona enacted the Uniform Prudent Management of Institutional Funds Act (UPMIFA) in 2008, the provisions of which apply to endowment funds existing on or established after that date. In compliance with UPMIFA, assets are held in an endowment fund, unless stated otherwise in a gift. The Organization classifies as temporarily restricted net assets (a) the original value of all gifts on the date received by the Organization and (b) accumulations of net assets added to the fund until those amounts are appropriated for expenditure.

The spending policy is defined by the charitable trust agreement which allows the greater of (1) the entire net income generated by the fund or (2) the “minimum investment return” to be distributed each calendar year to the Organization for operational activities. The term “minimum investment return” refers to a calculation under Section 4942 of the Internal Revenue Code, which is essentially 5% of the assets of the charitable trust.

The Organization has adopted investment policies, approved by the Board of Directors, which attempt to provide a predictable stream of funding to operations while also maintaining the purchasing power of those endowment assets over the long-term. Accordingly, the investment process seeks to achieve an after-cost total real rate of return, including investment income as well as capital appreciation, which exceeds the annual distribution with acceptable levels of risk. Endowment assets are invested in a diversified asset mix, which includes equity and debt securities, and is intended to result in a consistent inflation-protected rate of return that has sufficient liquidity to make an annual distribution of 5%, while growing the funds if possible. Investment risk is measured in terms of the total endowment fund; investment assets and allocation between asset classes and strategies are managed to not expose the fund to unacceptable levels of risk.

CHRISTIAN FAMILY CARE AGENCY, INC.  
Notes to Consolidated Financial Statements  
September 30, 2016

**NOTE 5 – Investments Restricted for Charitable Trust** (continued)

Changes in endowment net assets as of September 30, 2016, are as follows:

Charitable trust net assets, October 1, 2015	\$	1,419,019
Investment income		
Interest		30,140
Realized/unrealized gains, less		
\$21,407 of investment fees		113,432
Distributions		<u>(63,157)</u>
Charitable trust net assets, September 30, 2016	\$	<u>1,499,434</u>

**NOTE 6 – Land, Buildings and Equipment**

Land, buildings and equipment consist of the following at September 30, 2016:

Land	\$	255,620
Office buildings		1,212,636
Building improvements (thrift stores, offices)		79,954
Office furniture and equipment		294,345
Vehicles		<u>70,459</u>
		1,913,014
Less accumulated depreciation		<u>(1,183,621)</u>
	\$	<u>729,393</u>

The Tucson office building is pledged as collateral on the note payable (NOTE 9). Total depreciation expense for the year was \$80,654.

**NOTE 7 – Other Assets**

Other assets at September 30, 2016, were comprised of the following:

Lease deposits	\$	7,576
Leasehold interest for time-shared resort		<u>7,500</u>
	\$	<u>15,076</u>

**NOTE 8 – Capital Lease**

In a prior year, the Organization acquired equipment under a capital lease, which contains a bargain purchase option at the end of the lease term. The economic substance of the lease is that the Organization is financing the acquisition of the equipment through the lease and accordingly, it is recorded in the Organization's assets and liabilities. The cost of the asset, which is included in furniture and equipment, was \$45,000 and accumulated depreciation was \$41,250 at September 30, 2016.



CHRISTIAN FAMILY CARE AGENCY, INC.  
Notes to Consolidated Financial Statements  
September 30, 2016

**NOTE 8 – Capital Lease** (continued)

The following is a schedule of future minimum payments required under this lease as of September 30, 2016:

<u>Year Ending September 30,</u>		
2017	\$	4,055
Less amount representing interest		<u>(103)</u>
Present value of lease payments	\$	<u>3,952</u>

**NOTE 9 – Note Payable**

The note payable consists of the following:

Bank loan, 4.8%, principal and interest payments of \$2,928 for 120 months through August 2025 when balloon payment due, secured by real property	\$	<u>360,244</u>
--	----	----------------

Maturities on the note payable at September 30, 2016, are as follows:

<u>Year Ending September 30,</u>		
2017	\$	18,233
2018		19,127
2019		20,066
2020		21,050
2021		22,083
Thereafter		<u>259,685</u>
	\$	<u>360,244</u>

**NOTE 10 – Agency Fund**

In 1992, the Organization received funds from the former clients of two adoption agencies, which are no longer in existence. The funds are to be used for the storage of adoption files for ninety-nine years. The balance in the agency fund liability account at September 30, 2016, is \$7,565.

**NOTE 11 – Designated Net Assets**

The Organization has designated net assets of \$56,665 for future property improvements and acquisitions.

CHRISTIAN FAMILY CARE AGENCY, INC.  
Notes to Consolidated Financial Statements  
September 30, 2016

**NOTE 12 – Temporarily Restricted Net Assets**

Temporarily restricted net asset activity for the year ended September 30, 2016, is as follows:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Releases</u>	<u>Ending Balance</u>
Program services				
Foster care	\$ 0	\$ 8,411	\$ 4,127	\$ 4,284
Wrap around services	5,672	57,070	34,539	28,203
Pregnancy/adoption	50,404	118,207	118,236	50,375
Other	300	20,281	15,503	5,078
Endowment	<u>1,419,019</u>	<u>143,572</u>	<u>63,157</u>	<u>1,499,434</u>
	<u>\$ 1,475,395</u>	<u>\$ 347,541</u>	<u>\$ 235,562</u>	<u>\$ 1,587,374</u>

**NOTE 13 – Service Fee Revenue**

For the year ended September 30, 2016, service fee revenue consisted of the following:

DCS/DDD	\$ 4,673,316
Magellan Health Services/ Mercy Maricopa Integrated Care	972,580
Other	<u>887,211</u>
	<u>\$ 6,533,107</u>

**NOTE 14 – Operating Lease Commitments**

The Organization has operating leases for two facilities in Phoenix, and one each in Tucson, and Mesa. The leases for the Phoenix locations expire in February 2019 and August 2017 and the lease for the Tucson location expires in June 2019. The Mesa location lease is a month to month agreement. Rental expense for the year ended September 30, 2016, was \$125,850, which included common area maintenance (“cam”) and rental tax expenses. Future minimum rental payments, excluding cam and taxes, are as follows:

<u>Year Ending September 30,</u>	
2017	\$ 122,147
2018	90,037
2019	45,811

CHRISTIAN FAMILY CARE AGENCY, INC.  
Notes to Consolidated Financial Statements  
September 30, 2016

**NOTE 14 – Operating Lease Commitments** (continued)

The Organization also leases copiers under operating leases, which require monthly payments of \$1,344 and \$290, plus taxes and other fees, and expire in February 2019 and April 2020, respectively. Total rental expense under copier lease agreements for the year ended September 30, 2016, was approximately \$22,000. Minimum future rental payments are as follows:

<u>Year Ending September 30,</u>	
2017	\$ 19,596
2018	19,596
2019	19,596
2020	6,347

**NOTE 15 – Line of Credit**

A line of credit was available to the Organization, which matures on November 15, 2017. The \$300,000 line of credit accrues interest on the outstanding principal balance at the greater of a floating rate equal to the prime rate plus 2.0%, with a maximum rate of 5%. No advances were made during the year and no balance was due as of September 30, 2016.

**NOTE 16 – Pension Plan**

The Organization established a retirement plan pursuant to Section 403(b) of the Internal Revenue Code, replacing the Simplified Employee Pension Plan. To participate in either plan, employees must be at least 21 years of age and have one year of service with the Organization. A predetermined contribution is made to the account of each eligible employee based on annual compensation levels. Contributions are established by the Board of Directors annually and can be up to 15% of eligible compensation, as set by Federal regulations. For the year ended September 30, 2016, the contribution rate was 3% of employee's compensation and total pension expense was \$69,745.

**NOTE 17 – Credit Risk**

At various times during the year, the Organization maintains bank balances in excess of the \$250,000 FDIC insurance limit. The risk is managed by maintaining all deposits in high quality financial institutions. The Organization also has cash equivalent funds that are covered by SIPC insurance.

**NOTE 18 – Subsequent Events**

Management has evaluated subsequent events through the report date which is the date the financial statements were available to be issued. Subsequent events after that date have not been evaluated.

**SUPPLEMENTAL INFORMATION**

# Romek, Sanders & Company, P.C.

## Certified Public Accountants

Members of American Institute of Certified Public Accountants  
and Arizona Society of Certified Public Accountants

### **INDEPENDENT AUDITORS' REPORT ON CONSOLIDATING INFORMATION**

To the Board of Directors  
Christian Family Care Agency, Inc.

We have audited the consolidated financial statements of Christian Family Care Agency, Inc. as of and for the year ended September 30, 2016, and our report thereon dated January 17, 2017, which expressed an unqualified opinion on those consolidated financial statements, appears on page 1. Our audit was conducted for the purpose of forming an opinion on the consolidated financial statements taken as a whole. The consolidating information in Schedules I and II is presented for purposes of additional analysis and is not a required part of the consolidated 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 consolidated financial statements. The information has been subjected to the auditing procedures applied in the audit of the consolidated financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the consolidated financial statements or to the consolidated financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the consolidating information in Schedules I and II is fairly stated in all material respects in relation to the consolidated financial statements taken as a whole.

*Romek Sanders & Company, P.C.*

January 17, 2017

CHRISTIAN FAMILY CARE AGENCY, INC.  
 Consolidating Schedule of Assets, Liabilities and Net Assets  
 September 30, 2016

	Christian Family Care Agency, Inc.	Arizona Children's Legacy	Eliminations	Total
<b>ASSETS</b>				
Cash and cash equivalents	\$ 2,532,401	\$ 133,493	\$ -	\$ 2,665,894
Investments	200,014	145,290	-	345,304
Prepaid expenses	16,528	-	-	16,528
Accounts receivable	683,916	-	-	683,916
Due from related party	3,000	-	(3,000)	-
Investment restricted for deferred compensation plan	-	184,738	-	184,738
Investments restricted for charitable trust	1,499,434	-	-	1,499,434
Land, buildings and equipment, at cost, less accumulated depreciation	55,291	1,251,850	(577,748)	729,393
Other assets	15,076	-	-	15,076
	<u>\$ 5,005,660</u>	<u>\$ 1,715,371</u>	<u>\$ (580,748)</u>	<u>\$ 6,140,283</u>
<b>LIABILITIES</b>				
Accounts payable	\$ 99,827	\$ -	\$ -	\$ 99,827
Due to related party	-	3,000	(3,000)	-
Accrued liabilities				
Payroll and other benefits	347,071	-	-	347,071
Deferred compensation liability	-	184,738	-	184,738
Interest	-	1,218	-	1,218
Unearned revenue	28,171	-	-	28,171
Capital lease payable	3,952	-	-	3,952
Note payable	-	360,244	-	360,244
Agency fund	7,565	-	-	7,565
	<u>486,586</u>	<u>549,200</u>	<u>(3,000)</u>	<u>1,032,786</u>
<b>NET ASSETS</b>				
Unrestricted				
Undesignated	2,823,696	274,565	-	3,098,261
Designated	56,665	-	-	56,665
Net investment in land, buildings and equipment	51,339	891,606	(577,748)	365,197
	<u>2,931,700</u>	<u>1,166,171</u>	<u>(577,748)</u>	<u>3,520,123</u>
Temporarily restricted	1,587,374	-	-	1,587,374
	<u>4,519,074</u>	<u>1,166,171</u>	<u>(577,748)</u>	<u>5,107,497</u>
	<u>\$ 5,005,660</u>	<u>\$ 1,715,371</u>	<u>\$ (580,748)</u>	<u>\$ 6,140,283</u>

CHRISTIAN FAMILY CARE AGENCY, INC.  
 Consolidating Schedule of Revenues, Expenses and Changes in Net Assets  
 For the Year Ended September 30, 2016

	Christian Family Care Agency, Inc.	Arizona Children's Legacy	Eliminations	Total
<b>Revenues and Support</b>				
Service fees	\$ 6,533,107	\$ -	\$ -	\$ 6,533,107
Contributions	2,388,420	-	(75,000)	2,313,420
Thrift store sales	343,914	-	-	343,914
Special events	57,577	-	-	57,577
Rent	-	150,570	(150,570)	-
Interest and dividends	37,735	2,964	-	40,699
Other	6,234	-	(6,000)	234
Realized and unrealized gains, net	113,432	15,561	-	128,993
<b>Total revenues and support</b>	<b>9,480,419</b>	<b>169,095</b>	<b>(231,570)</b>	<b>9,417,944</b>
<b>Expenses</b>				
Program services	6,868,732	128,015	(175,191)	6,821,556
<b>Supporting activities</b>				
Fundraising	445,283	4,820	(6,594)	443,509
General and administrative	686,563	64,017	(49,785)	700,795
<b>Total supporting activities</b>	<b>1,131,846</b>	<b>68,837</b>	<b>(56,379)</b>	<b>1,144,304</b>
<b>Total expenses</b>	<b>8,000,578</b>	<b>196,852</b>	<b>(231,570)</b>	<b>7,965,860</b>
Change in net assets	1,479,841	(27,757)	-	1,452,084
Net assets, beginning of year	3,039,233	1,193,928	(577,748)	3,655,413
Net assets, end of year	<u>\$ 4,519,074</u>	<u>\$ 1,166,171</u>	<u>\$ (577,748)</u>	<u>\$ 5,107,497</u>