CHRISTIAN FAMILY CARE AGENCY, INC.

Consolidated Financial Statements
September 30, 2017
With Independent Auditors' Report

CHRISTIAN FAMILY CARE AGENCY, INC.

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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, 2017, 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, 2017, 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 19, 2018

1640 South Stapley Drive, Suite 126 / Mesa, Arizona 85204 / (480) 820-5041 / FAX: (480) 775-8705

CHRISTIAN FAMILY CARE AGENCY, INC.
Consolidated Statement of Financial Position
September 30, 2017

ASSETS		
Cash and cash equivalents	$	2,555,719
Investments		1,162,372
Prepaid expenses		44,355
Accounts receivable		586,337
Investment restricted for deferred compensation plan		173,872
Investments restricted for charitable trust		1,650,513
Land, buildings and equipment, at cost, less accumulated depreciation		657,854
Other assets		32,576
Total assets	$	6,863,598
LIABILITIES		
Accounts payable	$	136,270
Accrued liabilities		
Payroll and other benefits		413,298
Deferred compensation liability		173,872
Interest		1,218
Unearned revenue		13,517
Note payable		342,280
Agency fund		7,463
Total liabilities		1,087,918
NET ASSETS		
Unrestricted		
Undesignated		3,720,753
Investment in land, buildings and equipment		315,574
		4,036,327
Temporarily restricted		1,739,353
Total net assets		5,775,680
Total liabilities and net assets	$	6,863,598

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, 2017

	Unrestricted	Temporarily Restricted	Total
REVENUES AND SUPPORT			
Service fees	$ 5,068,762	$ -	$ 5,068,762
Contributions	3,765,511	287,050	4,052,561
Thrift store sales	346,048	-	346,048
Special events, less direct benefit of $13,291	40,428	-	40,428
Realized and unrealized gains, net	15,158	178,986	194,144
Interest and dividends	11,800	37,079	48,879
In-kind contributions	4,063	-	4,063
Other	3,235	-	3,235
Net assets released from restrictions: :			
Satisfaction of program and supporting activities	351,136	(351,136)	-
Total revenues and support	9,606,141	151,979	9,758,120
EXPENSES			
Program services	7,599,170	-	7,599,170
Supporting activities			
Fundraising	616,869	-	616,869
General and administrative	873,898	-	873,898
Total supporting activities	1,490,767	-	1,490,767
Total expenses	9,089,937	-	9,089,937
CHANGE IN NET ASSETS	516,204	151,979	668,183
NET ASSETS, beginning of year	3,520,123	1,587,374	5,107,497
NET ASSETS, end of year	$ 4,036,327	$ 1,739,353	$ 5,775,680

The accompanying notes are an integral part of this statement

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CHRISTIAN FAMILY CARE AGENCY, INC.
Consolidated Statement of Functional Expenses
For the Year Ended September 30, 2017

	Program Services				
	Adoption/ Pregnancy	Counseling	Foster Care	Visitation	Other
Salaries	$ 985,310	$ 646,437	$ 1,797,578	$ 662,765	$ 168,783
Employee benefits and taxes	192,350	121,187	352,420	91,960	27,705
Total salaries and related benefits	1,177,660	767,624	2,149,998	754,725	196,488
Professional services	-	-	687	-	-
Printing and marketing	16,562	825	9,216	-	986
Office	75,094	54,616	107,437	35,574	7,312
Facilities	29,546	20,748	52,303	22,343	3,578
Rent	1,837	9,562	8,393	6,303	1,330
Insurance	43,813	33,941	79,662	27,437	5,812
Employee training and other related	3,596	-	5,428	-	853
Travel and transportation	62,200	10,089	82,400	176,302	3,004
Dues and subscriptions	4,673	-	12,743	4,554	9
Birth mother living and legal fees	126,910	-	-	-	-
Therapeutic foster and respite care	-	603,198	165,784	-	-
Foster care recruitment and training	-	-	15,744	-	-
Special events	-	-	-	-	-
Banking fees	-	-	-	-	-
Interest	3,685	2,641	6,754	2,660	395
Bad debts	2,320	4,541	39,837	9,731	-
Depreciation	16,186	13,075	30,544	7,939	1,179
Other	25,570	27,244	24,759	23,177	5,680
Total expenses	$ 1,589,652	$ 1,548,104	$ 2,791,689	$ 1,070,745	$ 226,626

The accompanying notes are an integral part of this statement

Thrift Stores	Total Program Services	Supporting Activities: Fundraising	Supporting Activities: General and Administrative	Supporting Activities: Total Supporting Activities	Total
$ 160,122	$ 4,420,995	$ 159,334	$ 480,002	$ 639,336	$ 5,060,331
35,533	821,155	28,270	111,930	140,200	961,355
195,655	5,242,150	187,604	591,932	779,536	6,021,686
-	687	7,805	79,322	87,127	87,814
2,515	30,104	182,404	23,050	205,454	235,558
6,530	286,563	24,710	39,158	63,868	350,431
787	129,305	2,276	17,431	19,707	149,012
122,013	149,438	2,850	12,111	14,961	164,399
372	191,037	3,958	19,648	23,606	214,643
-	9,877	100	8,907	9,007	18,884
934	334,929	43	2,019	2,062	336,991
-	21,979	530	11,843	12,373	34,352
-	126,910	-	-	-	126,910
-	768,982	-	-	-	768,982
-	15,744	-	-	-	15,744
-	-	10,758	-	10,758	10,758
5,174	5,174	178,255	18,551	196,806	201,980
22	16,157	123	1,346	1,469	17,626
-	56,429	-	-	-	56,429
1,112	70,035	369	7,859	8,228	78,263
37,240	143,670	15,084	40,721	55,805	199,475
$ 372,354	$ 7,599,170	$ 616,869	$ 873,898	$ 1,490,767	$ 9,089,937

CHRISTIAN FAMILY CARE AGENCY, INC.
Consolidated Statement of Cash Flows
For the Year Ended September 30, 2017

CASH FLOWS FROM OPERATING ACTIVITIES	
Change in net assets	$ 668,183
Adjustments to reconcile change in net assets to net cash provided by operating activities	
Depreciation	78,263
Interest, realized and unrealized gains restricted for charitable trust	(216,065)
Unrealized gains on investments	(9,929)
Changes in assets and liabilities, net	
(Increase) decrease in assets:	
Prepaid expenses	(27,828)
Accounts receivable	97,579
Other assets	(17,500)
Increase (decrease) in liabilities:	
Accounts payable	36,444
Payroll and other benefits	66,227
Unearned revenue	(14,654)
Agency fund	(102)
Total adjustments	(7,565)
Net cash provided by operating activities	660,618
CASH FLOWS FROM INVESTING ACTIVITIES	
Purchase of investments	(807,139)
Distributions from charitable trust	64,986
Purchases of property and equipment	(6,724)
Net cash (used) by financing activities	(748,877)
CASH FLOWS FROM FINANCING ACTIVITIES	
Payments on capital lease payable	(3,952)
Payments on note payable	(17,964)
Net cash (used) by financing activities	(21,916)
NET (DECREASE) IN CASH AND CASH EQUIVALENTS	(110,175)
CASH AND CASH EQUIVALENTS, beginning of year	2,665,894
CASH AND CASH EQUIVALENTS, end of year	$ 2,555,719

The accompanying notes are an integral part of this statement

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 throughout Arizona. CFC also operates two thrift stores.

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, 2017, CFC received 34% 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, 2017, 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, 2017.

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 highly liquid investments with an initial maturity of three months or less to be cash equivalents. Cash held in investment portfolios that is restricted for the purchase of property and equipment, payment of long-term debt, or endowment is classified as investments.

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, 2017, were $4,063 and are 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.

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

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, 2017, 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, 2014 to 2016 are open to examination by federal authorities and for the years ended September 30, 2013 to 2016 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 related to investment revenues, including investment advisory fees were $40,408 for the year ended September 30, 2017, 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.

Investment Restricted for Deferred Compensation Plan

The investment restricted for deferred compensation plan consists of a single premium immediate annuity.

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

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.

Supplementary Cash Flow Statement Disclosures

Cash paid for interest during the year was $17,626, 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, 2017, as follows:

	Level 1	Level 2	Level 3	Total
Assets				
Investments				
Certificates of deposit	$ 0	$ 399,652	$ 0	$ 399,652
Securities	114,482	0	0	114,482
Fixed income	0	619,915	0	619,915
Government securities	0	28,323	0	28,323
	114,482	1,047,890	0	1,162,372

NOTE 2 – Fair Value Measurements (continued)

Investment restricted for deferred compensation plan				
Single premium immediate annuity	0	0	173,872	173,872
Investments restricted for charitable trust				
Cash equivalents	$ 47,207	$ 0	$ 0	$ 47,207
Equity securities	1,315,981	0	0	1,315,981
Fixed income	0	287,325	0	287,325
	1,363,188	287,325	0	1,650,513
Total assets	$ 1,477,670	$ 1,335,215	$ 173,872	$ 2,986,757
Liabilities				
Deferred compensation liability	$ 0	$ 0	$ 173,872	$ 173,872
Total liabilities	$ 0	$ 0	$ 173,872	$ 173,872

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, 2017), the life expectancy of the annuitant as calculated using the Social Security Administration's life expectancy calculator, the required distributions under the terms of the agreement and annuity purchased to fund the agreement. The Legacy measures the fair value of the asset and liability annually and adjusts the measurement inputs based on relevant data.

Changes in the investment restricted for deferred compensation plan and the deferred compensation liability were as follows:

Balance, October 1, 2016	$ 184,738
Distributions	(24,031)
Change in fair value	13,165
Balance, September 30, 2017	$ 173,872

NOTE 3 – Accounts Receivable

Accounts receivable consists of the following:

DCS/DDD contracts	$ 463,040
Therapeutic foster care contracts	138,920
Counseling services	11,367
	613,327
Less allowance for doubtful accounts	(26,990)
	$ 586,337

NOTE 3 – Accounts Receivable (continued)

Accounts receivable more than ninety days old were approximately $45,000 at September 30, 2017.

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 monthly payments of $2,003 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 Organization has interpreted the State of Arizona's enacted version of the Uniform Prudent Management of Institutional Funds Act (UPMIFA) as requiring the preservation of the fair value of the original gift as of the gift date of the donor-restricted endowment funds, absent explicit donor stipulations to the contrary. As a result of this interpretation, the Organization classifies as temporarily restricted net assets (a) the original value of gifts on the date received by the Organization, (b) the original value of subsequent gifts on the date received by the Organization and (c) accumulations to the temporarily restricted endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund. In accordance with UPMIFA, the Organization considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds: (1) the duration and preservation of the fund, (2) the purposes of the donor-restricted endowment fund, (3) general economic conditions, (4) the possible effect of inflation and deflation, (5) the expected total return from income and the appreciation of investments, (6) other resources of the Organization and, (7) the Organization's investment policies.

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.

NOTE 5 – Investments Restricted for Charitable Trust (continued)

Changes in endowment net assets as of September 30, 2017, are as follows:

Charitable trust net assets, October 1, 2016	$	1,499,434
Investment income		
Interest		37,079
Realized/unrealized gains, less $37,824 of investment fees		178,986
Distributions		(64,986)
Charitable trust net assets, September 30, 2017	$	1,650,513

NOTE 6 – Land, Buildings and Equipment

Land, buildings and equipment consist of the following at September 30, 2017:

Land	$	255,620
Office buildings		1,201,608
Building improvements (thrift stores, offices)		103,156
Office furniture and equipment		288,894
Vehicles		70,459
		1,919,737
Less accumulated depreciation		(1,261,883)
	$	657,854

The Tucson office building is pledged as collateral on the note payable (NOTE 8). Total depreciation expense for the year was $78,263.

Land and office buildings include real property located in Phoenix and Tucson, AZ. The Phoenix property was sold on January 2, 2018, for $1.11 million. In conjunction with the sale of the property, the buyer of the property has agreed to lease back the property to the Organization rent free. The agreement matures on December 31, 2018, but the Organization can elect to terminate the agreement with 30 days written notice.

The Tucson property is currently listed for sale and the Legacy Board has agreed upon a list price at or above $550,000.

NOTE 7 – Other Assets

Other assets at September 30, 2017, were comprised of the following:

Deposits held in escrow (NOTE 13)	$	25,000
Lease deposits		7,576
	$	32,576

NOTE 8 – 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	$	342,280

Maturities on the note payable at September 30, 2017, are as follows:

Year Ending September 30,		
2018	$	19,127
2019		20,066
2020		21,050
2021		22,083
2022		23,167
Thereafter		236,787
	$	342,280

NOTE 9 – 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, 2017, is $7,463.

NOTE 10 – Temporarily Restricted Net Assets

Temporarily restricted net asset activity for the year ended September 30, 2017, is as follows:

	Beginning Balance	Additions	Releases	Ending Balance
Program services				
Foster care	$ 4,284	$ 5,641	$ 6,578	$ 3,347
Wrap around services	28,203	7,350	35,553	0
Pregnancy/adoption	50,375	257,691	231,916	76,150
Other	5,078	16,368	12,103	9,343
Endowment	1,499,434	216,065	64,986	1,650,513
	$ 1,587,374	$ 503,115	$ 351,136	$ 1,739,353

NOTE 11 – Service Fee Revenue

For the year ended September 30, 2017, service fee revenue consisted of the following:

DCS/DDD	$	3,329,365
Therapeutic foster care services		1,007,246
Other		732,151
	$	5,068,762

NOTE 12 – 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 2018 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, 2017, was $164,400, which included common area maintenance ("cam") and rental tax expenses. Future minimum rental payments, excluding cam and taxes, are as follows:

Year Ending September 30,		
2018	$	118,373
2019		45,811

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, 2017, was approximately $22,000. Minimum future rental payments are as follows:

Year Ending September 30,		
2018	$	19,596
2019		19,596
2020		6,347

NOTE 13 – Commitment to Purchase Real Property

In September 2017, the Organization entered into a purchase and sale agreement for real property with a contact purchase price of $3.4 million. Escrow was opened with an initial earnest money deposit of $25,000 and additional deposits of $125,000 were paid through December 2017. Close of escrow was on January 19, 2018.

A promissory note was secured in the amount of $2.58 million to finance the acquisition. The note matures in July 2018 and requires monthly interest only payments based on a variable rate tied to an index, which was 4.5% at the date of funding.

The Organization has estimated the total cost for the project, including renovations and furnishings, at $5.9 million.

NOTE 14 – Line of Credit

A line of credit was available to the Organization, which matured 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, 2017. The line of credit was renewed on January 4, 2018, for one year, with the same terms.

NOTE 15 – 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, 2017, the contribution rate was 3% of employee's compensation and total pension expense was $81,276.

NOTE 16 - Concentrations

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.

Contributions

Contributors to the Organization reside primarily in the State of Arizona. Concentrations of credit risk with respect to the contributions are limited due to the large number of contributors comprising the Organization's contributor base and their reliance on many different revenue sources for their discretionary income.

The Organization is eligible to receive contributions that may qualify as Arizona Foster Care Tax Credits to individuals and residents who file taxes in Arizona. Any legislative changes enacted to Arizona Revised Statues related to tax credits could significantly impact revenues.

NOTE 17 – 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, 2017, and our report thereon dated January 19, 2018, 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 19, 2018

1640 South Stapley Drive, Suite 126 / Mesa, Arizona 85204 / (480) 820-5041 / FAX: (480) 775-8705

CHRISTIAN FAMILY CARE AGENCY, INC.
Consolidating Schedule of Assets, Liabilities and Net Assets
September 30, 2017

	Christian Family Care Agency, Inc.	Arizona Children's Legacy	Eliminations	Total
ASSETS				
Cash and cash equivalents	$ 2,422,709	$ 133,010	$ -	$ 2,555,719
Investments	999,845	162,527	-	1,162,372
Prepaid expenses	44,355	-	-	44,355
Accounts receivable	586,337	-	-	586,337
Due from related party	3,000	-	(3,000)	-
Investment restricted for deferred compensation plan	-	173,872	-	173,872
Investments restricted for charitable trust	1,650,513	-	-	1,650,513
Land, buildings and equipment, at cost, less accumulated depreciation	35,002	1,200,600	(577,748)	657,854
Other assets	32,576	-	-	32,576
Total assets	$ 5,774,337	$ 1,670,009	$ (580,748)	$ 6,863,598
LIABILITIES				
Accounts payable	$ 136,270	$ -	$ -	$ 136,270
Due to related party	-	3,000	(3,000)	-
Accrued liabilities				
Payroll and other benefits	413,298	-	-	413,298
Deferred compensation liability	-	173,872	-	173,872
Interest	-	1,218	-	1,218
Unearned revenue	13,517	-	-	13,517
Note payable	-	342,280	-	342,280
Agency fund	7,463	-	-	7,463
Total liabilities	570,548	520,370	(3,000)	1,087,918
NET ASSETS				
Unrestricted				
Undesignated	3,429,434	291,319	-	3,720,753
Net investment in land, buildings and equipment	35,002	858,320	(577,748)	315,574
	3,464,436	1,149,639	(577,748)	4,036,327
Temporarily restricted	1,739,353	-	-	1,739,353
Total net assets	5,203,789	1,149,639	(577,748)	5,775,680
Total liabilities and net assets	$ 5,774,337	$ 1,670,009	$ (580,748)	$ 6,863,598

CHRISTIAN FAMILY CARE AGENCY, INC.
Consolidating Schedule of Revenues, Expenses and Changes in Net Assets
For the Year Ended September 30, 2017

	Christian Family Care Agency, Inc.	Arizona Children's Legacy	Eliminations	Total
Revenues and Support				
Service fees	$ 5,068,762	$ -	$ -	$ 5,068,762
Contributions	4,127,561	-	(75,000)	4,052,561
Thrift store sales	346,048	-	-	346,048
Special events, less direct benefit of $13,291	40,428	-	-	40,428
Rent	-	127,800	(127,800)	-
Realized and unrealized gains, net	178,987	15,157	-	194,144
Interest and dividends	45,923	2,956	-	48,879
In-kind contributions	4,063	-	-	4,063
Other	15,959	-	(12,724)	3,235
Total revenues and support	9,827,731	145,913	(215,524)	9,758,120
Expenses				
Program services	7,650,252	150,474	(201,556)	7,599,170
Supporting activities				
Fundraising	617,264	578	(973)	616,869
General and administrative	875,500	11,393	(12,995)	873,898
Total supporting activities	1,492,764	11,971	(13,968)	1,490,767
Total expenses	9,143,016	162,445	(215,524)	9,089,937
Change in net assets	684,715	(16,532)	-	668,183
Net assets, beginning of year	4,519,074	1,166,171	(577,748)	5,107,497
Net assets, end of year	$ 5,203,789	$ 1,149,639	$ (577,748)	$ 5,775,680