Financial Reports

Child Crisis Arizona

Safe kids. Strong families.

Mesa, Arizona

FINANCIAL STATEMENTS

Year Ended December 31, 2016

Henry+Horne

INDEPENDENT AUDITORS' REPORT

Board of Directors
Child Crisis Arizona
Mesa, Arizona

We have audited the accompanying financial statements of Child Crisis Arizona (a nonprofit organization), which comprise the statement of financial position as of December 31, 2016, and the related statement of activities, functional expenses, and cash flows for the year then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the 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 auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Child Crisis Arizona as of December 31, 2016, and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Henry + Horne, LLP

Tempe, Arizona
April 20, 2017

CHILD CRISIS ARIZONA
STATEMENT OF FINANCIAL POSITION
Year Ended December 31, 2016

ASSETS		
Cash and cash equivalents		$ 3,428,826
Accounts receivable		761,210
Promises to give, current portion, net of allowance of $46,050		260,925
Grants receivable		221,490
Supplies inventory		449,652
Prepaid expenses and other assets		85,787
	TOTAL CURRENT ASSETS	5,207,890
PROMISES TO GIVE, net of current portion, unamortized discount and allowance for uncollectible promises of $78,100		300,495
BENEFICIAL INTEREST IN TRUST		58,833
INVESTMENTS		234,919
PROPERTY AND EQUIPMENT, net		8,033,297
	TOTAL ASSETS	$ 13,835,434
LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES		
Accounts payable		$ 127,290
Accrued expenses		695,010
Due to affiliate		12,958
Deferred revenue		31,377
	TOTAL CURRENT LIABILITIES	866,635
ACCRUED DEFERRED COMPENSATION		47,606
FORGIVABLE LOANS		163,000
	TOTAL LIABILITIES	1,077,241
NET ASSETS		
Unrestricted		10,017,087
Temporarily restricted		2,741,106
	TOTAL NET ASSETS	12,758,193
	TOTAL LIABILITIES AND NET ASSETS	$ 13,835,434

See accompanying notes.

Child Crisis Arizona

PREVENT. ADVOCATE. SUPPORT.

CHILD CRISIS ARIZONA
STATEMENT OF ACTIVITIES
Year Ended December 31, 2016

	Unrestricted	Temporarily Restricted	Total
REVENUES, SUPPORT AND OTHER INCOME			
Contributions	$ 3,900,797	$ 323,463	$ 4,224,260
Special events contributions	838,909	-	838,909
In-kind donated property and equipment	89,474	1,796,853	1,886,327
In-kind childcare supplies	240,961	-	240,961
In-kind services and use of facilities	221,655	-	221,655
Contract revenue	9,239,829	-	9,239,829
Grants revenue	575,145	324,000	899,145
Other income	48,133	-	48,133
Net assets released from restrictions	974,165	(974,165)	-
	16,129,068	1,470,151	17,599,219
Special events income	242,222	-	242,222
Direct benefit to donors	(97,322)	-	(97,322)
	144,900	-	144,900
TOTAL REVENUES, SUPPORT AND OTHER INCOME	16,273,968	1,470,151	17,744,119
OPERATING EXPENSES			
Program services	12,146,348	-	12,146,348
Supporting services			
Management and general	1,596,681	-	1,596,681
Fundraising	1,283,110	-	1,283,110
Total supporting services	2,879,791	-	2,879,791
TOTAL OPERATING EXPENSES	15,026,139	-	15,026,139
CHANGE IN NET ASSETS BEFORE NONOPERATING INCOME (EXPENSES)	1,247,829	1,470,151	2,717,980
NONOPERATING ACTIVITIES			
Investment return	14,837	-	14,837
Change in value of beneficial interest in trust	-	2,268	2,268
Loss on sale of fixed assets	(9,935)	-	(9,935)
Transfers to affiliate	(110,433)	-	(110,433)
TOTAL NONOPERATING INCOME (EXPENSES)	(105,531)	2,268	(103,263)
CHANGE IN NET ASSETS	1,142,298	1,472,419	2,614,717
NET ASSETS, BEGINNING OF YEAR	8,874,789	1,268,687	10,143,476
NET ASSETS, END OF YEAR	$ 10,017,087	$ 2,741,106	$ 12,758,193

See accompanying notes.

CHILD CRISIS ARIZONA
STATEMENT OF FUNCTIONAL EXPENSES
Year Ended December 31, 2016

	Program Services			
	Emergency Children's Shelter	Early Education Services	Foster Care and Adoption	Family Resources
Salaries and wages	$ 3,107,467	$ 1,731,687	$ 1,138,988	$ 390,104
Payroll taxes and employee benefits	631,018	378,062	239,828	80,902
Training, conferences and travel	31,770	77,746	5,868	5,659
Program supplies	61,097	157,250	43,496	58,875
Office and janitorial supplies	42,567	43,111	8,093	5,630
Printing and postage	78	451	975	202
Equipment and software	97,074	79,627	39,222	37,137
IT consulting	79,062	43,901	20,602	8,602
Marketing and design	238	263	9,591	300
In-kind childcare supplies	150,806	57,825	62,205	14,080
Insurance	56,261	22,821	12,179	11,697
Other	25,210	25,679	58,968	9,058
Repairs and maintenance	87,261	50,926	17,779	28,403
Food and medications	225,915	91,167	2,446	354
Telephone and utilities	136,076	77,318	62,415	48,549
Transportation	26,625	6,714	46,814	5,223
Banking fees	144	133	-	-
Professional services	-	-	-	-
Special event expenses - food and venue	-	-	-	-
Grant writing fees	-	-	-	-
Building rent	76,361	-	1,503	25,375
Bad debt expense	-	-	-	-
Depreciation	271,632	201,742	76,712	54,893
Total operating expenses	5,106,662	3,046,423	1,847,684	785,043
Direct benefit to donors: Food and entertainment expenses	-	-	-	-
TOTAL EXPENSES	$ 5,106,662	$ 3,046,423	$ 1,847,684	$ 785,043

Home Visitation	Total Program Services	Management and General	Fundraising Activities	Direct Benefit to Donors	Total
$ 808,835	$ 7,177,081	$ 969,317	$ 555,399	$ -	$ 8,701,797
166,145	1,495,955	211,193	110,585	-	1,817,733
22,359	143,402	10,470	11,170	-	165,042
37,638	358,356	-	-	-	358,356
12,850	112,251	33,350	6,188	-	151,789
1,645	3,351	3,729	11,459	-	18,539
26,582	279,642	56,009	28,105	-	363,756
13,537	165,704	18,222	8,490	-	192,416
7,450	17,842	208	83,086	-	101,136
90,137	375,053	-	-	-	375,053
5,526	108,484	10,640	5,602	-	124,726
9,646	128,561	18,009	29,046	-	175,616
5,532	189,901	25,124	7,942	-	222,967
206	320,088	8,884	2,879	-	331,851
31,173	355,531	44,340	27,537	-	427,408
36,849	122,225	9,426	8,284	-	139,935
78	355	3,603	75,488	-	79,446
51,350	51,350	113,642	-	-	164,992
-	-	-	147,408	97,322	244,730
-	-	-	10,774	-	10,774
32,529	135,768	-	-	-	135,768
-	-	-	120,166	-	120,166
469	605,448	60,515	33,502	-	699,465
1,360,536	12,146,348	1,596,681	1,283,110	97,322	15,123,461
-	-	-	-	(97,322)	(97,322)
$ 1,360,536	$ 12,146,348	$ 1,596,681	$ 1,283,110	$ -	$ 15,026,139

CHILD CRISIS ARIZONA
STATEMENT OF CASH FLOWS
Year Ended December 31, 2016

CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	$	2,614,717
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation		699,465
Loss on sale of assets		9,935
Non-cash donation of property and equipment		(1,886,327)
Change in donated supplies inventory		185,976
Provision for uncollectible promises to give		(33,550)
Change in discount on long-term promises to give		(1,748)
Change in value of beneficial interest in lead trust		(2,268)
Unrealized gain on investments		(15,302)
Decrease (increase) in:		
Accounts receivable		285,189
Promises to give		121,341
Grants receivable		81,951
Prepaid expenses and other assets		121,413
Increase (decrease) in:		
Accounts payable		(150,779)
Accrued expenses		(12,057)
Deferred revenue		(11,828)
Accrued deferred compensation		970
NET CASH PROVIDED BY OPERATING ACTIVITIES		2,007,098
CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds from sale of property and equipment		2,250
Purchases of property and equipment		(740,015)
Proceeds from beneficial interests in trusts		23,781
NET CASH USED IN INVESTING ACTIVITIES		(713,984)
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from forgivable loan		84,000
NET INCREASE IN CASH AND CASH EQUIVALENTS		1,377,114
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR		2,051,712
CASH AND CASH EQUIVALENTS, END OF YEAR	$	3,428,826

NOTE 1 NATURE OF OPERATIONS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Organization

The primary mission of Child Crisis Arizona (CCA) is serving Arizona's children, providing a safe environment, free from abuse and neglect by creating strong and successful families. These services are provided in seven primary locations, utilizing both paid employees and volunteer staff.

CCA is related to Child Crisis Arizona Foundation (CCAF), a supporting organization to CCA, by three common board members as of December 31, 2016. CCA does not exercise control over CCAF, and the accounts of CCAF are not included in the accompanying financial statements of CCA. CCAF benefits CCA and may benefit other charitable organizations.

CCA provides several programs to further its mission, including but not limited to the following:

Emergency Children's Shelter – CCA operates the only licensed emergency shelter program in Maricopa County, Arizona for children ages birth to 8-years and is licensed to shelter as many as 78 children at any given time. Children are placed into care when removed from their families for abuse, neglect, or other forms of maltreatment by the Department of Child Safety or Tribal Social Services. In times of extreme duress, when no other care options are available, families may voluntarily place their children into care at no cost. Specially trained staff provide care 24 hours a day, 365 days a year and provide for the children's basic needs (food, clothing, shelter); medical, dental, and behavioral health needs; and educational needs through school enrollment, homework help, and tutoring in a home-like environment.

Early Education Services – CCA operates two Early Head Start programs, located in Phoenix and Mesa, for children birth to 3-years and an award-winning Preschool for children ages 3-5 years on our Phoenix campus. To be accepted into the program, families must demonstrate they are living at or below 200% of the Federal Poverty Level and have a high score on a risk assessment. Early Head Start, provided in both center-based and home-based models, is free of charge; the Preschool carries nominal fees on a sliding fee scale. Each family is assigned a Family Support Specialist who works with the family to ensure they have the resources needed to best support their child's successful entry into kindergarten and throughout their school career.

Foster Care and Adoption – Under contracts with the Department of Child Safety and the Gila River Indian Community, CCA works with families to achieve their foster care license and/or adoption certification. CCA provides a cadre of wrap-around services to support families including a 24-hour live helpline, socialization events, and care needs for the children. Following a foster or adoptive placement, staff continue to work with and support the family ensuring for ongoing successful placements.

NOTE 1 NATURE OF OPERATIONS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Organization (Continued)

Family Resources – CCA's Family Resources program is comprised of Family Education and Counseling programs. CCA offers a no-cost or extremely low-cost resource for families and community members through a variety of different parenting classes, workshops, children's playgroups, support groups, and family events. The goal is to educate and model to parents and caregivers supportive parenting skills in a non-judgmental environment to strengthen families and prevent possible child abuse or neglect. The Counseling Program was originally developed to support foster and adoptive families through any issues, whether short or longer-term, as part of our additional services to maintain placements. The Counseling Program is licensed by the State of Arizona as a specialty provider and is qualified to provide services for children ages birth to 17-years. Clients are referred through Mercy Maricopa Integrated Care to our clinicians with expertise in attachment and bonding, grief and loss, sexual abuse, childhood trauma, and family dynamics. Clinicians treat children using play and art therapy, in addition to talk and group therapy.

Home Visitation – CCA's Home Visitation program is a voluntary, no-cost program for expectant parents or parents with young children, designed to provide tools to nurture the child's learning and development. The program is available for families in Gilbert, Mesa and Queen Creek, with children age birth to five-years. The program connects families to other needed resources. Also provided are developmental screenings for the child and referrals to community resources if concerns are noted. The goal of the program is to help parents embrace their role as their child's first and most important teacher and to ensure children enter school prepared to success.

Basis of Presentation

The financial statements of CCA have been prepared on the accrual basis of accounting and accordingly reflect all significant receivables, payables and other liabilities.

Cash and Cash Equivalents

For the purpose of the statement of cash flows, CCA considers all highly liquid debt instruments with an original maturity of ninety days or less at date of acquisition to be cash equivalents.

NOTE 1 NATURE OF OPERATIONS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Accounts Receivable

Accounts receivable consist primarily of amounts due from various agencies for contract revenue and are unsecured. Accounts receivable are carried at the outstanding balances less an allowance for doubtful accounts, if applicable. CCA evaluates the collectability of its accounts receivable based on a combination of factors. In circumstances where it is aware of a specific amount where there may be an inability to meet the financial obligation, it records a specific reserve to reduce the amounts recorded to what it believes will be collected. Accounts are charged off against the allowance when they are deemed to be uncollectible. Accounts receivable at December 31, 2016 are considered by management to be fully collectible and, accordingly, an allowance for doubtful accounts has not been provided.

Promises to Give and Grants Receivable

Unconditional promises to give and certain grants receivable are recognized as revenues in the period the promise is received and as assets, decreases of liabilities or expenses depending on the form of the benefits received. Conditional promises to give are recognized when the conditions on which they depend are substantially met. The discounts on those amounts are computed using risk-free interest rates as determined by management applicable to the years in which the promises are received. Amortization of the discounts is included in contributions. In circumstances where it is aware of a specific amount where there may be an inability to meet the financial obligation, CCA records a specific reserve to reduce the amounts recorded to what it believes will be collected. Additionally, CCA reserves a portion of all promises based upon historical uncollectible rates. Promises are charged off against the allowance when they are deemed to be uncollectible. Grants receivable at December 31, 2016 are considered to be fully collectible by management and, accordingly, an allowance for doubtful accounts is not deemed necessary.

Contributed Supplies Inventory

CCA receives a significant amount of contributed supplies inventory to be used for program service needs. These items include clothing, toys and hygiene supplies. These contributed items are initially recorded in the period received at the fair value of the item received and are carried at the lower of cost or market. Cost is determined by the specific identification method.

Fair Value Measurements

A framework for measuring fair value has been established by the Accounting Standards Codification and provides a 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 the lowest priority to unobservable inputs (Level 3 measurements).

NOTE 1 NATURE OF OPERATIONS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Fair Value Measurements (Continued)

The three levels of the fair value hierarchy are as follows:

Level 1 Inputs to the valuation methodology are unadjusted quoted prices for identical assets or liabilities in active markets that CCA has the ability to access.

Level 2 Inputs to the valuation methodology include:

- Quoted prices for similar assets or liabilities in active markets;
- Quoted prices for identical or similar assets or liabilities in inactive markets;
- Inputs other than quoted prices that are observable for the asset or liability;
- Inputs that are derived principally from or corroborated by observable market data by correlation or other means.

If the asset or liability has a specified term (contractual term), the Level 2 input must be observable for substantially the full term of the asset or liability.

Level 3 Inputs to the valuation methodology are unobservable and significant to the fair value measurement, and usually reflect CCA's own assumptions about the assumptions that market participants would use in pricing the assets (i.e. real estate valuations, broker quotes).

The asset's or liability's fair value measurement level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. Valuation techniques used maximize the use of observable inputs and minimize the use of unobservable inputs.

Beneficial Interest in Trusts

CCA also has an interest in an irrevocable charitable remainder unitrust. Assets received under charitable remainder unitrust agreements are recorded at fair value on the date the agreement is recognized, which CCA estimates based on the present value of the expected future cash flows of the asset. Upon the death of the beneficiaries, a portion of the remaining principal is to be distributed to CCA.

NOTE 1 NATURE OF OPERATIONS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Investments

Investments are measured at fair value in the statement of financial position as determined by quoted prices in active markets. Investment income or loss (including realized and unrealized gains and losses on investments, interest and dividends) is included in the change in unrestricted net assets in the accompanying statement of activities, unless the income or loss is restricted by donor or law.

CCA periodically transfers funds to CCAF to include in CCAF's investment pool. Under this arrangement, CCA specifies that CCAF is to distribute the funds to CCA as it requests the funds. CCAF has no variance power over the funds. CCA shares proportionately in the investment return on the entire investment portfolio held by CCAF.

This investment held by CCAF is valued at fair market value based on the underlying assets included in CCAF’s investment pool. Investment income (including interest and dividends) and realized and unrealized gains and losses are reported in the statements of activities and changes in net assets under support and revenue.

Property and Equipment

Acquisitions of property and equipment in excess of $5,000 are capitalized. Property and equipment are stated at cost or, if donated, at the approximate fair value at the date of donation. Depreciation of buildings and equipment is calculated using the straight-line method over the estimated useful lives of the respective assets.

Major additions and improvements are capitalized. Maintenance and repairs are expensed as incurred. When assets are retired or otherwise disposed of, the related costs and accumulated depreciation are removed from the accounts and gains and losses are included in operations.

Impairment of Long-Lived Assets

CCA reviews long-lived assets for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Recoverability of assets to be held and used is measured by a comparison of the carrying amount of an asset to future net cash flows expected to be generated by the asset. If such assets are considered to be impaired, the impairment to be recognized is measured by the amount by which the carrying amount of the assets exceeds the fair value of the assets. Assets to be disposed of are reported at the lower of the carrying amount or fair value less costs to sell.

NOTE 1 NATURE OF OPERATIONS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Revenue Recognition

CCA recognizes revenue from contracts, primarily with federal and state agencies, when services are rendered. A receivable is recorded to the extent the revenue earned exceeds payments received.

Contributions

Contributions, grants and bequests, including promises to give, are received and recorded as unrestricted, temporarily restricted or permanently restricted support depending on the existence and/or nature of any donor restrictions. When a donor restriction expires (that is, when a stipulated time restriction ends or purpose restriction is accomplished), temporarily or permanently restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets released from restrictions. However, if a restriction is fulfilled in the same time period in which the contribution is received, CCA reports the support as unrestricted.

Donated Services and Use of Facilities

Donated services are recorded at their estimated fair value if they enhance CCA's nonfinancial assets or require specialized skills that CCA would normally purchase if not provided by donation. No amounts have been reflected in the financial statements for certain donated volunteer services because they did not qualify for recording under the generally accepted accounting principle guidelines. Donated use of facilities is recorded at the estimated fair value.

Functional Allocation of Expenses

The costs of providing the various programs and activities have been summarized on a functional basis in the statement of activities. Accordingly, certain costs have been allocated among the programs and supporting services benefited. The costs are allocated based on square footage, number of employees or actual units utilized and time studies.

NOTE 1 NATURE OF OPERATIONS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Income Tax Status

CCA qualifies as a tax-exempt organization under Section 501(c)(3) of the Internal Revenue Code (IRC), qualifies for the charitable contribution deduction and has been classified as an organization that is not a private foundation. Income determined to be unrelated business taxable income (UBTI) would be subject to income tax.

CCA follows accounting standards for uncertainty in income taxes, which require that tax positions initially need to be recognized in the financial statements when it is more likely-than-not that the positions will not be sustained upon examination by the tax authorities. As of December 31, 2016, CCA had no uncertain tax positions that qualify for either recognition or disclosure in the financial statements.

CCA recognizes interest and penalties associated with income tax in operating expenses. During the year ended December 31, 2016, CCA did not have any income tax related interest and penalty expense.

Management's Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make 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 reported amounts of revenues and expenses during the reporting period. Accordingly, actual results could differ from these estimates.

Date of Management's Review

In preparing these financial statements, CCA has evaluated events and transactions for potential recognition or disclosure through April 20, 2017, the date the financial statements were available to be issued.

NOTE 2 CONCENTRATIONS OF CREDIT RISK AND CONCENTRATIONS OF INCOME SOURCES

Financial instruments that subject CCA to potential concentrations of credit risk consist principally of cash and cash equivalents, accounts receivable, and grants receivable. CCA maintains its cash in bank accounts with financial institutions which at times may exceed federally insured limits. As of December 31, 2016, CCA's bank balances exceeded federally insured limits by approximately $2,522,000. CCA has not experienced any losses in such accounts and believes it is not exposed to any significant credit risk on cash balances.

Grants receivable include $200,000 from three sources, which represent 90% of total grants receivable at December 31, 2016.

CCA has a concentration of income sources, mainly from certain agencies. The mix of gross accounts receivable and revenue from various contract sources at December 31, 2016, and for the year ended December 31, 2016, is as follows:

	Accounts Receivable	%	Revenue	%
Arizona Department of Child Safety	$ 381,032	50%	$ 3,903,486	42%
First Things First	240,183	32%	1,666,520	18%
Gila River Indian Community	93,650	12%	361,385	4%
Department of Heath and Human Services	-	0%	2,303,748	25%
Other	46,345	6%	1,004,690	11%
	$ 761,210	100%	$ 9,239,829	100%

Concentrations of credit risk with respect to grants and accounts receivable are limited due to the nature of the receivables and the collection history of these types of accounts. CCA requires no collateral on its accounts receivable, grants receivable and promises to give.

NOTE 3 PROMISES TO GIVE

Promises to give consist of the following at December 31, 2016:

Receivable in less than one year	$ 306,975
Receivable in two to five years	401,138
Total promises to give	708,113
Discount to present value	(22,543)
Allowance for uncollectible promises	(124,150)
Net promises to give	561,420
Current portion	(260,925)
Non-current portion	$ 300,495

The estimated cash flows for promises to give were discounted over the collection period using a discount range of 0.76% to 4.43% as determined by management.

NOTE 4 BENEFICIAL INTEREST IN TRUST

CCA is one of several charities that receive cash from a donor at the end of each calendar quarter under a charitable lead trust agreement. CCA's distribution is 11.11% of an annual annuity of $45,000 ($1,250 quarterly). The trust was terminated in 2016. CCA's final payout of $1,196 was received during the year ended December 31, 2016.

CCA is also a beneficiary of the remainder interest of certain charitable remainder unitrust funds, which are held by third party trustees. The trustees make distributions to the income beneficiaries based upon the terms of the trust agreement with the donors. Under the agreements, CCA is to receive the remainder of the trust assets upon the death of the donors. CCA has recorded its beneficial interest in these trust funds at the net present value of the estimated future amounts to be received using a discount rate of 5.25%. One of these trusts was terminated in 2016 with a final payout of $22,738. The remaining beneficial interest in a charitable remainder trust is recorded on the statement of financial position at present value.

NOTE 5 FAIR VALUE MEASUREMENTS

The following is a summary of the fair value of financial instruments at December 31, 2016:

	Level 1	Level 2	Level 3	Total
Assets measured at fair value on a recurring basis:				
Investments held by CCAF	$ -	$ 187,313	$ -	$ 187,313
Deferred compensation investments	-	47,606	-	47,606
Beneficial interest in trust	-	-	58,833	58,833
Total fair value of financial instruments	$ -	$ 234,919	$ 58,833	$ 293,752

Investments are valued based on observable inputs, which include the fair value of the underlying assets held and CCA's percentage interest in those investments. Beneficial interest in trusts are valued based on expected future cash flows discounted to present value.

The following is a reconciliation of beginning and ending balances of assets measured at fair value on a recurring basis using significant unobservable (Level 3) inputs during the year ended December 31, 2016:

	Beneficial Interest in Trusts
Balance, December 31, 2015	$ 80,346
Distributions received from interests in perpetual trusts	(23,781)
Change in value	2,268
Balance, December 31, 2016	$ 58,833

NOTE 6 PROPERTY AND EQUIPMENT

Property and equipment consists of the following at December 31, 2016:

Land	$ 526,052
Building and improvements	10,709,719
Furniture, equipment and vehicles	1,670,088
Computers and software	858,606
	13,764,465
Accumulated depreciation	(6,135,249)
	7,629,216
Construction in progress	404,081
	$ 8,033,297

Depreciation expense was $699,465 for the year ended December 31, 2016. Construction in progress consists of renovations to the Mesa facility that was not yet placed in service as of December 31, 2016.

NOTE 7 FORGIVABLE LOANS

Forgivable loans consist of the following at December 31, 2016:

Community Development Block Grant note payable to the City of Phoenix (CDBG loan) bearing interest at 0%. No payments are due under the note and the note will be forgiven at a rate of 20% per year beginning in 2021 in accordance with the CDBG loan agreement. The loan is secured by the building upon which the building improvements have been performed.	$ 79,000
Community Development Block Grant note payable to the City of Phoenix (CDBG loan) bearing interest at 0%. No payments are due under the note and the note will be forgiven at a rate of 20% per year beginning in 2022 in accordance with the CDBG loan agreement. The loan is secured by the building upon which the building improvements have been performed.	84,000
	$ 163,000

NOTE 7 FORGIVABLE LOANS (Continued)

In accordance with the terms of the CDBG loans, CCA must use the funds for the purpose of making building improvements to provide services to low and moderate income persons. The properties with these improvements must be devoted primarily to this purpose for a period of ten years, beginning in 2016. If the property use is changed or the properties are sold or vacated in less than the ten years, CCA will immediately become liable for the balance of the loans.

NOTE 8 TEMPORARILY RESTRICTED NET ASSETS

Temporarily restricted net assets are restricted by the donor for the following time and/or purpose restrictions:

Time restricted:	
Promises to give	$ 561,420
Beneficial interest in trusts	58,833
Time and purpose restricted:	
Mesa shelter building - to utilize as a child care center	1,796,853
Early Education Services	228,000
Emergency Children's Shelters	93,500
Other	2,500
Total temporarily restricted net assets	$ 2,741,106

NOTE 9 DONATED SERVICES AND USE OF FACILITIES

Donated services and use of facilities for the year ended December 31, 2016 are as follows:

	Program Services	Management and General	Fundraising	Total
Donated professional services	$ 66,778	$ 62,693	$ 3,976	$ 133,447
Use of facilities	88,208	-	-	88,208
	$ 154,986	$ 62,693	$ 3,976	$ 221,655

NOTE 10 OPERATING LEASES

CCA has lease agreements for buildings and equipment, expiring in May 2020. Minimum future rental payments under these non-cancelable operating leases are as follows:

Years Ending December 31,		
2017	$	94,515
2018		73,507
2019		65,711
2020		19,662
	$	253,395

Lease expense was $281,585 for the year ended December 31, 2016. This amount includes donated use of facilities valued at $88,208.

NOTE 11 RETIREMENT PLANS

CCA sponsors a 401(k) retirement plan (“the Plan”) for the benefit of its eligible employees. Under the terms of the Plan, employees may make voluntary contributions, subject to Internal Revenue Service limitations. CCA may make annual discretionary contributions to the Plan. CCA made employer contributions of approximately $145,000 during the year ended December 31, 2016.

CCA also has a deferred compensation plan for the benefit of certain eligible employees, which qualifies under Section 457 of the Internal Revenue Code. CCA holds cash for the sole purpose of funding deferred compensation liabilities. According to the terms of the deferred compensation agreement, all earnings or losses on the deferred compensation amounts to be invested will be allocated directly to the participant in the plan and are recorded to the deferred compensation liability. The deferred compensation plan assets in the amount of $47,606 as of December 31, 2016 are included in investments on the accompanying statement of financial position. During the year ended December 31, 2016, CCA made employer contributions to the deferred compensation plan in the amount of approximately $41,000.

NOTE 12 CONTINGENCIES

CCA participates in a number of federal and state-assisted grant and contract programs which are subject to financial and compliance audits. Accordingly, CCA's compliance with applicable grant or contract requirements may be determined at some future date. The amount, if any, of expenditures of fees for units of service which may be disallowed by the granting or contracting agencies cannot be determined at this time, although CCA's management expects such amounts, if any, to be immaterial.