

**CHILDREN'S ACTION ALLIANCE**

**Financial Statements  
December 31, 2015 and 2014  
With Independent Auditors' Report**

# 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

The Board of Directors  
Children's Action Alliance  
Phoenix, Arizona

We have audited the accompanying financial statements of Children's Action Alliance (an Arizona corporation, not for profit), which comprise the statements of financial position as of December 31, 2015 and 2014, and the related statements of activities, functional expenses and cash flows for the years ended, and the related notes to the financial statements.

#### **Management's Responsibility for the Financial Statements**

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

#### **Auditors' Responsibility**

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free 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 Children's Action Alliance as of December 31, 2015 and 2014, and the results of its operations and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

*Romek, Sanders & Company, P.C.*  
June 8, 2016

CHILDREN'S ACTION ALLIANCE  
 Statements of Financial Position  
 December 31, 2015 and 2014

	2015	2014
<b>ASSETS</b>		
Cash	\$ 527,569	\$ 298,143
Investments (NOTE 2)	1,328,682	1,342,240
Investments designated for endowment (NOTES 2 and 3)	111,930	114,333
Investments restricted for endowment (NOTES 2 and 3)	920,244	976,083
Receivables		
Grants	0	161,245
Other	0	500
Prepaid expenses	4,963	4,963
Furniture and equipment, at cost less accumulated depreciation of \$69,188 and \$66,647 (NOTE 5)	3,815	6,356
Total assets	\$ 2,897,203	\$ 2,903,863
 <b>LIABILITIES</b>		
Grants payable	\$ 0	\$ 44,589
Accounts payable	0	5,970
Accrued expenses	22,713	23,288
Refundable advances	184,091	130,000
Total liabilities	206,804	203,847
 <b>NET ASSETS</b>		
Undesignated	1,146,391	1,145,595
Designated (NOTE 6)	297,971	179,333
Net investment in furniture and equipment	3,815	6,356
Total unrestricted net assets	1,448,177	1,331,284
Temporarily restricted net assets (NOTE 7)	1,242,222	1,368,732
Total net assets	2,690,399	2,700,016
Total liabilities and net assets	\$ 2,897,203	\$ 2,903,863

The accompanying notes are an integral part of these statements

CHILDREN'S ACTION ALLIANCE  
 Statements of Activities  
 For the Years Ended December 31, 2015 and 2014

	2015		
	Unrestricted	Temporarily Restricted	Total
<b>REVENUES AND OTHER SUPPORT</b>			
Contributions	\$ 112,844	\$ 7,500	\$ 120,344
Grants and contracts	892,087	1,045,694	1,937,781
Event income, net of direct benefits of \$40,105 and \$32,378	163,930	0	163,930
Interest	32,802	13,431	46,233
Realized and unrealized (losses) gains, net	(48,763)	(21,770)	(70,533)
Net assets released from restrictions (NOTE 8):			
Satisfaction of program restrictions	1,171,365	(1,171,365)	0
	<u>2,324,265</u>	<u>(126,510)</u>	<u>2,197,755</u>
<b>EXPENSES</b>			
Program services			
Total program services	2,052,605	0	2,052,605
Supporting activities			
General and administrative	80,712	0	80,712
Fund raising	74,055	0	74,055
Total supporting activities	154,767	0	154,767
Total expenses	<u>2,207,372</u>	<u>0</u>	<u>2,207,372</u>
CHANGE IN NET ASSETS	116,893	(126,510)	(9,617)
NET ASSETS, beginning of year, as previously stated	1,331,284	1,368,732	2,700,016
PRIOR PERIOD ADJUSTMENT (NOTE 11)	<u>0</u>	<u>0</u>	<u>0</u>
NET ASSETS, beginning of year, as restated	<u>1,331,284</u>	<u>1,368,732</u>	<u>2,700,016</u>
NET ASSETS, end of year	<u>\$ 1,448,177</u>	<u>\$ 1,242,222</u>	<u>\$ 2,690,399</u>

The accompanying notes are an integral part of these statements

2014

Unrestricted	Temporarily Restricted	Total
\$ 117,074	\$ 0	\$ 117,074
747,083	1,070,354	1,817,437
153,452	0	153,452
30,908	13,016	43,924
60,653	44,041	104,694
<u>1,061,847</u>	<u>(1,061,847)</u>	<u>0</u>
<u>2,171,017</u>	<u>65,564</u>	<u>2,236,581</u>
<u>1,948,693</u>	<u>0</u>	<u>1,948,693</u>
97,909	0	97,909
95,190	0	95,190
<u>193,099</u>	<u>0</u>	<u>193,099</u>
<u>2,141,792</u>	<u>0</u>	<u>2,141,792</u>
<u>29,225</u>	<u>65,564</u>	<u>94,789</u>
1,202,059	968,026	2,170,085
<u>100,000</u>	<u>335,142</u>	<u>435,142</u>
<u>1,302,059</u>	<u>1,303,168</u>	<u>2,605,227</u>
<u>\$ 1,331,284</u>	<u>\$ 1,368,732</u>	<u>\$ 2,700,016</u>

CHILDREN'S ACTION ALLIANCE  
Statement of Functional Expenses  
For the Year Ended December 31, 2015

2015

	Total Program Services	General and Administrative	Fund Raising	Total Supporting Activities	Total
Salaries and related benefits	\$ 895,789	\$ 49,669	\$ 49,669	\$ 99,338	\$ 995,127
Grants and contracts	446,467	0	0	0	446,467
Contractual services	361,569	16,927	4,856	21,783	383,352
Advertising and promotion	133,667	7,035	0	7,035	140,702
Office expenses	42,486	2,230	4,698	6,928	49,414
Information technology	14,271	0	1,500	1,500	15,771
Occupancy	52,100	2,894	2,894	5,788	57,888
Travel	27,380	402	658	1,060	28,440
Conferences, conventions and meetings	22,280	0	3,666	3,666	25,946
Depreciation	2,541	0	0	0	2,541
Insurance	860	995	0	995	1,855
Printing	30,673	0	4,267	4,267	34,940
Postage	4,362	217	1,847	2,064	6,426
Publications and subscriptions	6,514	343	0	343	6,857
Training, memberships and sponsorships	11,646	0	0	0	11,646
<b>Total expenses</b>	<b>\$ 2,052,605</b>	<b>\$ 80,712</b>	<b>\$ 74,055</b>	<b>\$ 154,767</b>	<b>\$ 2,207,372</b>

The accompanying notes are an integral part of this statement

CHILDREN'S ACTION ALLIANCE  
Statement of Functional Expenses  
For the Year Ended December 31, 2014

	2014				
	Total Program Services	General and Administrative	Fund Raising	Total Supporting Activities	Total
Salaries and related benefits	\$ 775,665	\$ 73,070	\$ 73,070	\$ 146,140	\$ 921,805
Grants and contracts	647,892	0	0	0	647,892
Contractual services	280,014	11,459	7,336	18,795	298,809
Advertising and promotion	67,841	0	0	0	67,841
Office expenses	40,089	3,448	4,657	8,105	48,194
Information technology	12,630	0	2,425	2,425	15,055
Occupancy	45,282	4,307	4,307	8,614	53,896
Travel	12,319	809	404	1,213	13,532
Conferences, conventions and meetings	24,862	2,187	0	2,187	27,049
Depreciation	3,302	354	275	629	3,931
Insurance	888	887	0	887	1,775
Printing	22,171	1,152	1,262	2,414	24,585
Postage	5,644	189	1,036	1,225	6,869
Publications and subscriptions	701	0	238	238	939
Training, memberships and sponsorships	9,393	47	180	227	9,620
<b>Total expenses</b>	<b>\$ 1,948,693</b>	<b>\$ 97,909</b>	<b>\$ 95,190</b>	<b>\$ 193,099</b>	<b>\$ 2,141,792</b>

The accompanying notes are an integral part of this statement

**CHILDREN'S ACTION ALLIANCE**  
**Statements of Cash Flows**  
For the Years Ended December 31, 2015 and 2014

	2015	2014
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Change in net assets	\$ (9,617)	\$ 94,789
Adjustments to reconcile change in net assets to net cash provided (used) by operating activities		
Depreciation	2,541	3,931
Realized and unrealized losses (gains) and reinvested interest and dividends on investments, net of investment expenses	24,300	(148,618)
Distributions from endowment	55,000	49,000
Changes in operating assets and liabilities		
(Increase) decrease in assets:		
Grants receivable	161,245	(37,171)
Other receivable	500	0
Increase (decrease) in liabilities:		
Grants payable	(44,589)	(43,802)
Accounts payable	(5,970)	5,970
Accrued expenses	(575)	8,975
Refundable advances	54,091	(8,672)
Total adjustments	246,543	(170,387)
Net cash provided (used) by operating activities	236,926	(75,598)
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Net purchase of investments	(7,500)	(10,000)
Net cash (used) by investing activities	(7,500)	(10,000)
<b>NET INCREASE (DECREASE) IN CASH</b>	229,426	(85,598)
<b>CASH, beginning of year</b>	298,143	383,741
<b>CASH, end of year</b>	\$ 527,569	\$ 298,143

The accompanying notes are an integral part of these statements



CHILDREN'S ACTION ALLIANCE  
Notes to Financial Statements  
December 31, 2015 and 2014

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

**Description of Organization**

Children's Action Alliance (the "Organization") was incorporated in 1988 in the State of Arizona as a not for profit corporation. The Organization is based in Phoenix, Arizona, and is a statewide nonpartisan research, policy and advocacy organization dedicated to promoting the well-being of all of Arizona's children and families. Through research, publications, media campaigns, and advocacy, the Organization acts as a strong and independent voice for children who cannot speak for themselves. The Organization's goal is to educate Arizonans about the needs of children in order to promote a greater understanding of the high economic and social stake that all Arizonans have in the well-being of the State's youngest citizens. The Organization's Board of Directors and supporters believe that the quality of life of the State's children is the single most important determinant of Arizona's future.

**Basis of Presentation**

The Organization reports information regarding its financial position and activities according to three classes of net assets (unrestricted net assets, temporarily restricted net assets, and permanently restricted net assets) based upon the existence or absence of donor-imposed restrictions. There were no permanently restricted net assets as of December 31, 2015 or 2014.

**Basis of Accounting**

The 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.

**Temporarily Restricted Amounts**

The Organization reports gifts of cash and other assets 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 statement of activities as net assets released from restrictions.

The Organization reports gifts of land, buildings, and equipment 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, the Organization reports expirations of donor restrictions when the donated or acquired long-lived assets are placed in service.

**Cash**

Deposits at financial institutions are insured in limited amounts by the Federal Deposit Insurance Corporation (FDIC). From time to time, these deposits may exceed the insurance amounts provided by the FDIC. The Organization considers checking accounts with deposits available for operating activities to be cash.

CHILDREN'S ACTION ALLIANCE  
Notes to Financial Statements  
December 31, 2015 and 2014

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

**Investments**

All investments are stated at market value using quoted market prices. Unrealized gains and losses are included in the change in net assets. Expenses relating to investment revenues, including investment advisory fees, amount to \$19,360 and \$15,877 for the years ended December 31, 2015 and 2014, respectively, and have been netted with revenues in the accompanying statements 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 financial statements.

**Donated Assets and Services**

Donated assets and other materials are recorded at estimated fair value at date of receipt.

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. There were no donated services during the years ended December 31, 2015 and 2014, which met the criteria for recognition.

A substantial number of unpaid volunteers have made significant contributions of their time to the Organization's programs. However, these services are not reflected as contributions in the financial statements since the recognition criteria were not met.

**Grants Receivable**

Grants receivable consists primarily of amounts due from an Arizona state agency and other not for profit organizations under grant agreements. Management considers the amounts for the years ended December 2014 to be fully collectible and, accordingly, has determined that an allowance for doubtful accounts is not considered necessary.

**Furniture and Equipment**

Furniture and equipment are stated at historical cost. All acquisitions of furniture and equipment in excess of \$2,500 and all expenditures for repairs, maintenance, renewals and betterments that materially prolong the useful lives of assets are capitalized. The cost of other maintenance and repairs is expensed as incurred. Depreciation is computed using the straight-line method over the estimated useful lives of the assets, which is three to five years.

**Refundable Advances**

Refundable advances consist of balances of grants awarded to the Organization as of December 31, 2015 and 2014 for future projects.

CHILDREN'S ACTION ALLIANCE  
Notes to Financial Statements  
December 31, 2015 and 2014

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

**Functional Expenses**

The costs of providing programs and other activities have been summarized on a functional basis in the accompanying statements of activities and functional expenses. Accordingly, certain costs have been allocated among the program service and supporting activities benefited. Directly identifiable expenses are charged to the applicable program service or supporting activity. Expenses related to more than one function are charged to program service 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.

**Advertising**

The Organization receives grant funds that require advertising to promote specific programs for children and families. The costs of advertising are expensed as incurred and during the years ended December 31, 2015 and 2014, advertising costs totaled \$120,702 and \$67,841, respectively.

**Reclassification**

The December 31, 2014, financial statements have been reclassified to be consistent with the December 31, 2015, financial statements.

**Use of Estimates**

Management uses estimates and assumptions in preparing the financial statements. Those estimates and assumptions affect the 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.

**Income Taxes**

The Organization is exempt from income taxes under Internal Revenue Code Section 501(c)(3) and applicable Arizona Revised Statutes. Contributions to the Organization are tax deductible within the limitations described by the Code.

As of December 31, 2015 and 2014, the Organization had no uncertain tax positions that qualify for either recognition or disclosure in the financial statements. The Organization will recognize future accrued interest and penalties related to unrecognized tax benefits in income tax expense, if incurred. Additionally, there was no unrelated business income for the years ended December 31, 2015 and 2014.

The Organization's informational tax returns are subject to review and examination by federal and state authorities. The tax returns for the years ended December 31, 2012 to 2014 are open to examination by federal authorities and for the years ended December 31, 2011 to 2014 by state authorities.

**Supplementary Disclosures – Statements of Cash Flows**

No cash was paid for income taxes, excise taxes or interest during the years ended December 31, 2015 or 2014.

CHILDREN'S ACTION ALLIANCE  
Notes to Financial Statements  
December 31, 2015 and 2014

**NOTE 2 – Investments**

The investment portfolio is included in the statements of financial position as:

	2015	2014
Unrestricted	\$ 1,328,682	\$ 1,342,240
Designated for endowment	111,930	114,333
Restricted for endowment	920,244	976,083
	\$ 2,360,856	\$ 2,432,656

The Organization uses the following three-tiered fair value hierarchy that prioritizes the inputs for 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 the assumptions of the financial institution where the assets are held, has 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.

Investments are accounted for on a recurring basis using the market approach under the fair value hierarchy at December 31, 2015, as follows:

	Level 1	Level 2	Level 3	Total
Cash sweep funds	\$ 92,524	\$ 0	\$ 0	\$ 92,524
Common stock	1,131,083	0	0	1,131,083
Fixed income securities	0	54,167	0	54,167
Mutual funds	568,666	0	0	568,666
Preferred/fixed rate cap securities	0	14,293	0	14,293
Pooled funds	0	500,123	0	500,123
	\$ 1,792,273	\$ 568,583	\$ 0	\$ 2,360,856

CHILDREN'S ACTION ALLIANCE  
Notes to Financial Statements  
December 31, 2015 and 2014

**NOTE 2 – Investments** (continued)

Investments are accounted for on a recurring basis using the market approach under the fair value hierarchy at December 31, 2014, as follows:

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Cash sweep funds	\$ 26,836	\$ 0	\$ 0	\$ 26,836
Common stock	1,104,714	0	0	1,104,714
Fixed income securities	0	104,052	0	104,052
Mutual funds	640,706	0	0	640,706
Preferred/fixed rate cap securities	0	14,847	0	14,847
Pooled funds	<u>0</u>	<u>541,501</u>	<u>0</u>	<u>541,501</u>
	<u>\$ 1,772,256</u>	<u>\$ 660,400</u>	<u>\$ 0</u>	<u>\$ 2,432,656</u>

Investments in pooled funds consist of funds invested in Arizona Community Foundation's long term pool, a common equity investment pool (the "Pool") that is managed by Arizona Community Foundation's Investment Committee. The Organization has ownership interest in the Pool, which is based upon the ratio of the market value of individual funds account balances to the total market value of the Pool. The ratio is used to allocate future activity and is recalculated each time a contribution or withdrawal is made.

**NOTE 3 – Endowment**

During a prior year, the Board of Directors established an endowment fund for the purpose of funding the early childhood program that includes both donor-restricted funds and funds designated by the Board of Directors to function as endowments. Net assets associated with endowment funds, including funds designated by the Board of Directors, are classified and reported based on the existence or absence of donor-imposed restrictions. Donor restricted contributions to the fund are recorded as increases to temporarily restricted net assets. While the principal in the endowment can be expended with Board approval, the intent is that only the earnings will be used for the intended program and that principal not be expended.

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.

CHILDREN'S ACTION ALLIANCE  
Notes to Financial Statements  
December 31, 2015 and 2014

**NOTE 3 – Endowment** (continued)

The Organization has adopted investment and spending policies for endowment assets with the objectives of preserving capital while concentrating on long-term growth. Accordingly, the investment process objective is to achieve, over a 3-5 year market cycle, returns that will exceed inflation, plus 5% to be distributed for the purpose of covering expenses as directed by the Board of Directors. Actual returns in any given year may vary from this amount. Investment risk is measured in terms of the total endowment fund and investment assets and allocation between asset classes and strategies are managed to not expose the fund to an unacceptable level of risk.

The spending policy determines the amount of money in a given year that will be distributed from the Organization's endowment assets. The current spending policy is to evaluate the earnings of the endowment fund for the prior year and the planned expenditures for staff and projects for the early childhood program as a part of the annual Organization budget process. Recommendations will then be made for distributions from the endowment fund. The target distribution will be 5% of the endowment fund balance, leaving the principal plus additional earnings in the fund. However, based on the needs of the Organization, distributions may be below or above 5%.

The endowment net assets composition by type of fund as of December 31, 2015, is as follows:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Total</u>
Donor-restricted funds	\$ 0	\$ 920,244	\$ 920,244
Board-designated funds	<u>111,930</u>	<u>0</u>	<u>111,930</u>
Total	<u>\$ 111,930</u>	<u>\$ 920,244</u>	<u>\$ 1,032,174</u>

The endowment net assets composition by type of fund as of December 31, 2014, is as follows:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Total</u>
Donor-restricted funds	\$ 0	\$ 976,083	\$ 976,083
Board-designated funds	<u>114,333</u>	<u>0</u>	<u>114,333</u>
Total	<u>\$ 114,333</u>	<u>\$ 976,083</u>	<u>\$ 1,090,416</u>

The change in endowment net assets for the year ended December 31, 2015, is as follows:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Total</u>
Endowment net assets, January 1, 2015	\$ 114,333	\$ 976,083	\$ 1,090,416
Additions	0	7,500	7,500
Investment income, net of fees	(2,403)	(8,339)	(10,742)
Amounts appropriated for expenditures	<u>0</u>	<u>(55,000)</u>	<u>(55,000)</u>
Endowment net assets, December 31, 2015	<u>\$ 111,930</u>	<u>\$ 920,244</u>	<u>\$ 1,032,174</u>

CHILDREN'S ACTION ALLIANCE  
Notes to Financial Statements  
December 31, 2015 and 2014

**NOTE 3 – Endowment** (continued)

The change in endowment net assets for the year ended December 31, 2014, is as follows:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Total</u>
Endowment net assets, January 1, 2014	\$ 100,364	\$ 968,026	\$ 1,068,390
Additions	10,000	0	10,000
Investment income, net of fees	3,969	57,057	61,026
Amounts appropriated for expenditures	<u>0</u>	<u>(49,000)</u>	<u>(49,000)</u>
Endowment net assets, December 31, 2014	<u>\$ 114,333</u>	<u>\$ 976,083</u>	<u>\$ 1,090,416</u>

**NOTE 4 – Concentration**

For the year ended December 31, 2015, the Organization recognized grant revenue from an Arizona state agency totaling \$447,617, of which \$315,038 was recorded as pass-through grant expense. This represents 20% of total revenues, gains and other support for the year. For the year ended December 31, 2014, the grant revenue recorded from this agency was \$572,028 of which \$445,470 was recorded as pass-through grant expense. This grant revenue recorded for the year ended December 31, 2014, represents 26% of the total revenues, gains and other support. Funding from this source continued through the contract award period, which expired on June 30, 2015 and was not extended.

As of December 31, 2014, the receivable balance due to the Organization related to the grants from this agency was \$130,412 and the related grants payable balance due to other organizations was \$32,493. No amounts were receivable or payable as of December 31, 2015.

**NOTE 5 – Furniture and Equipment**

Furniture and equipment consists of the following at December 31:

	<u>2015</u>	<u>2014</u>
Office furniture and equipment	\$ 73,003	\$ 73,003
Less accumulated depreciation	<u>(69,188)</u>	<u>(66,647)</u>
	<u>\$ 3,815</u>	<u>\$ 6,356</u>

Total depreciation expense for the years ended December 31, 2015 and 2014, was \$2,541 and \$3,931, respectively.

CHILDREN'S ACTION ALLIANCE  
Notes to Financial Statements  
December 31, 2015 and 2014

**NOTE 6 – Designated Net Assets**

Designated net assets are determined by management and the Board, and consist of the following:

	2015	2014
Future projects	\$ 186,041	\$ 65,000
Endowment	111,930	114,333
	\$ 297,971	\$ 179,333

Net assets designated for future year programs consists of unrestricted grant revenue received that has been designated by management to fund anticipated projects in progress in the subsequent year.

The endowment funds are designated for early childhood programs and consists of the corpus of the initial investments designated by the Board of Directors and allocated earnings and expenses from the Organization's investment funds.

**NOTE 7 – Temporarily Restricted Net Assets**

Temporarily restricted net assets are available for the following purposes:

	2015	2014
Future projects	\$ 321,978	\$ 392,649
Endowment	920,244	976,083
	\$ 1,242,222	\$ 1,368,732

Net assets temporarily restricted for future projects consists of donor restricted grant revenue received to fund anticipated projects in progress in the subsequent year.

The endowment funds are restricted for early childhood programs and consist of the corpus of the initial investments restricted by donors and allocated earnings and expenses from the Organization's investment funds.

**NOTE 8 – Temporarily Restricted Expenses**

Net assets were released from donor restrictions by incurring expenses satisfying the following restricted purposes for the years ended December 31, 2015 and 2014:

	2015	2014
Current year projects	\$ 1,116,365	\$ 1,012,847
Endowment	55,000	49,000
	\$ 1,171,365	\$ 1,061,847



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**NOTE 9 – Operating Lease Commitments**

The Organization leases office space under a lease agreement that expires December 31, 2017. Under the agreement, rent expense is \$3,500 per month and increases to \$3,948 per month beginning January 2014 through June 2015, and to \$4,100 beginning July 2015 through December 2017. Rental expense related to the agreement for the years ended December 31, 2015 and 2014 was \$48,288 and \$47,372, respectively.

The Organization has a lease agreement for office equipment. The terms of the lease agreement require 63 monthly payments of \$772, plus applicable taxes, through January 2017. Rental expense for this office equipment lease agreement for the years ended December 31, 2015 and 2014 was approximately \$10,000 each year.

Minimum future rental payments under these commitments are as follows:

<u>Year ending December 31,</u>		
2016	\$	58,458
2017		49,966

The Organization also leases office space in Tucson, Arizona. Under a previous agreement, rent expense was \$375 a month for the first year beginning June 2014, and increased to \$400 after the first year. This lease was cancelable with written notification. A new lease was entered into during September 2015, for which rent expense is \$420 per month. This lease can also be cancelled with written notification. Rent expense related to the agreements for the years ended December 31, 2015 and 2014 were \$5,675 and \$2,725, respectively.

**NOTE 10 – Retirement Plan**

The Organization has a 403(b) plan for eligible employees. For 2015 and 2014, employees' withholdings to the plan were matched up to 3%. The match is determined annually by the Board. Total contributions to the plan for the years ended December 31, 2015 and 2014, were \$14,261 and \$15,006, respectively.

**NOTE 11 – Restatement of Previously Issued Financial Statements**

The financial statements of the Organization as of December 31, 2014, were originally issued June 4, 2015. However, corrections have been made to the statements as it was determined that activity previously reported as deferred should have been recognized as current year revenue. Accordingly, for the year ended December 31, 2014, corrections were made to properly record the net asset balances at the beginning of the year and the related activity during the year.

Adjustments made include the reclassification of transactions related to the recognition of revenue for certain grants and contracts. Previously issued financial statements reported certain funds received but held for future projects as refundable advances. A correction has been made to record the funds when received as grants and contracts revenue in the year received.

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**NOTE 11 – Restatement of Previously Issued Financial Statements** (continued)

The effect of the restatements, in total and by class, on the change in net assets for the year ended December 31, 2014, is as follows:

	<u>Unrestricted Net Assets</u>	<u>Temporarily Restricted Net Assets</u>	<u>Total Net Assets</u>
<b>CHANGE IN NET ASSETS</b>			
As previously reported	\$ 64,225	\$ 8,057	\$ 72,282
Reclassification of contributions	(1,061,037)	1,083,544	22,507
Adjustment for satisfaction of program restriction	<u>1,012,847</u>	<u>(1,012,847)</u>	<u>0</u>
Change in net assets, as restated	<u>\$ 29,225</u>	<u>\$ 65,564</u>	<u>\$ 94,789</u>
<b>NET ASSETS AT BEGINNING OF YEAR</b>			
As previously reported	\$ 1,202,059	\$ 968,026	\$ 2,170,085
Reclassification of net assets	<u>100,000</u>	<u>335,142</u>	<u>435,142</u>
Balance at beginning of year, as restated	<u>\$ 1,302,059</u>	<u>\$ 1,303,168</u>	<u>\$ 2,605,227</u>
<b>NET ASSETS AT END OF YEAR</b>			
As previously reported	\$ 1,266,284	\$ 976,083	\$ 2,242,367
Cumulative effect of changes	<u>65,000</u>	<u>392,649</u>	<u>457,649</u>
Net assets at end of year, as restated	<u>\$ 1,331,284</u>	<u>\$ 1,368,732</u>	<u>\$ 2,700,016</u>

The effect of the correction on each financial statement line item for the year ended December 31, 2014, is as follows:

	<u>As Previously Reported</u>	<u>Adjustment</u>	<u>As Adjusted</u>
<b>Statement of Financial Position</b>			
Refundable advances	\$ 587,649	\$ (457,649)	\$ 130,000
Total liabilities	661,496	(457,649)	203,847
Designated net assets	114,333	65,000	179,333
Total unrestricted	1,266,284	65,000	1,331,284
Temporarily restricted	976,083	392,649	1,368,732
Total net assets	2,242,367	457,649	2,700,016
<b>Statement of Activities</b>			
Grants and contracts	\$ 1,794,930	\$ 22,507	\$ 1,817,437
Total revenue and other support	2,214,074	22,507	2,236,581
Change in net assets	72,282	22,507	94,789
Net assets, beginning of year, as previously reported	2,170,085	0	2,170,085
Prior period adjustment	0	435,142	435,142
Net assets, beginning of year, as adjusted	2,170,085	435,142	2,605,227
Net assets, end of year	2,242,367	457,649	2,700,016

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December 31, 2015 and 2014

**NOTE 11 – Restatement of Previously Issued Financial Statements** (continued)

	<u>As Previously Reported</u>	<u>Adjustment</u>	<u>As Adjusted</u>
<b>Statement of Cash Flows</b>			
Change in net assets	\$ 72,282	\$ 22,507	\$ 94,789
Increase (decrease) in refundable advances	13,835	(22,507)	(8,672)
Total adjustments	(147,880)	(22,507)	(170,387)

**NOTE 12 – Subsequent Events**

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