

ACH CHILD AND FAMILY SERVICES AND AFFILIATES

**COMBINED FINANCIAL STATEMENTS AND
SUPPLEMENTARY INFORMATION**

YEARS ENDED DECEMBER 31, 2016 AND 2015

**ACH CHILD AND FAMILY SERVICES AND AFFILIATES
TABLE OF CONTENTS
YEARS ENDED DECEMBER 31, 2016 AND 2015**

INDEPENDENT AUDITORS' REPORT	1
COMBINED FINANCIAL STATEMENTS	
COMBINED STATEMENTS OF FINANCIAL POSITION	3
COMBINED STATEMENTS OF ACTIVITIES	4
COMBINED STATEMENTS OF CASH FLOWS	6
COMBINED STATEMENTS OF FUNCTIONAL EXPENSES	7
NOTES TO COMBINED FINANCIAL STATEMENTS	9
SUPPLEMENTARY INFORMATION	
INDEPENDENT AUDITORS' REPORT ON COMBINING INFORMATION	25
COMBINING STATEMENT OF FINANCIAL POSITION	26
COMBINING STATEMENT OF ACTIVITIES	27



INDEPENDENT AUDITORS' REPORT

Board of Directors
ACH Child and Family Services and Affiliates
Fort Worth, Texas

Report on the Financial Statements

We have audited the accompanying combined financial statements of ACH Child and Family Services and Affiliates (ACH) which comprise the combined statements of financial position as of December 31, 2016 and 2015, and the related combined statements of activities, cash flows, and functional expenses for the years then ended, and the related notes to the combined financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these combined 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 combined 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 combined financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America, and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the combined financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the combined financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the combined 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 combined 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 combined financial statements.

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

Board of Directors
ACH Child and Family Services and Affiliates

Opinion

In our opinion, the combined financial statements referred to above present fairly, in all material respects, the combined financial position of ACH Child and Family Services and Affiliates as of December 31, 2016 and 2015, and the combined changes in their net assets and their cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

CliftonLarsonAllen LLP

CliftonLarsonAllen LLP

Fort Worth, Texas
September 21, 2017

**ACH CHILD AND FAMILY SERVICES AND AFFILIATES
COMBINED STATEMENTS OF FINANCIAL POSITION
DECEMBER 31, 2016 AND 2015**

ASSETS	<u>2016</u>	<u>2015</u>
Cash and Cash Equivalents	\$ 2,202,446	\$ 2,056,209
Restricted Cash	215,082	304,550
Cash Restricted for Capital Improvements	1,170,000	20,000
Grants and Program Receivable, Net of Allowance for Doubtful Accounts of \$160,212 and \$100,000, respectively	7,296,855	5,054,082
Accrued Interest Receivable	52,188	52,188
Other Receivables	196,436	139,655
Due From Investment Custodian	2,950,000	-
Prepaid Expenses	133,695	169,898
Promises to Give, Net	1,281,964	812,336
Investments - Publicly Traded/Listed Securities	35,731,203	35,177,892
Investments - Nonpublicly Traded	15,544,842	18,376,144
Mineral Interests and Real Estate, Net	22,387,326	22,882,006
Beneficial Interest in Trust	9,729,095	9,636,074
Note Receivable	9,070,750	9,070,750
Property and Equipment, Net	<u>25,144,924</u>	<u>24,758,234</u>
Total Assets	<u><u>\$ 133,106,806</u></u>	<u><u>\$ 128,510,018</u></u>
LIABILITIES AND NET ASSETS		
LIABILITIES		
Accounts Payable and Accrued Liabilities	\$ 5,061,285	\$ 5,020,760
Line of Credit	2,450,124	11,900,782
Notes Payable	13,000,000	13,000,000
Debt Issuance Costs, Unamortized Portion	(7,120)	(30,113)
Total Liabilities	<u>20,504,289</u>	<u>29,891,429</u>
NET ASSETS		
Unrestricted:		
Undesignated	33,152,862	42,993,125
Board Designated Endowment	<u>76,110,297</u>	<u>54,649,097</u>
	109,263,159	97,642,222
Temporarily Restricted	2,390,491	27,500
Permanently Restricted	<u>948,867</u>	<u>948,867</u>
Total Net Assets	<u>112,602,517</u>	<u>98,618,589</u>
Total Liabilities and Net Assets	<u><u>\$ 133,106,806</u></u>	<u><u>\$ 128,510,018</u></u>

See accompanying Notes to Combined Financial Statements.

**ACH CHILD AND FAMILY SERVICES AND AFFILIATES
COMBINED STATEMENTS OF ACTIVITIES
YEARS ENDED DECEMBER 31, 2016 AND 2015**

	2016			Total
	Unrestricted	Temporarily Restricted	Permanently Restricted	
PUBLIC SUPPORT				
Contributions	\$ 653,068	\$ 347,828	\$ -	\$ 1,000,896
Capital Campaign Contributions	-	4,735,000	-	4,735,000
Estates and Trusts	125,000	-	-	125,000
Special Events, Net of Direct Costs of \$72,373 and \$82,216, Respectively	172,401	-	-	172,401
Total Public Support	<u>950,469</u>	<u>5,082,828</u>	<u>-</u>	<u>6,033,297</u>
REVENUE AND INVESTMENT RETURNS				
Program Service Fees	47,650,946	-	-	47,650,946
Government Grant Income	398,382	-	-	398,382
Rental and Other Income	384,899	-	-	384,899
Interest and Other Income	627,402	-	-	627,402
Mineral and Real Estate Properties, Net	3,413,061	59,261	-	3,472,322
Investment Income, Net	558,983	9,706	-	568,689
Realized and Unrealized Gains(Losses) on Investments, Net	1,238,308	21,501	-	1,259,809
Realized Gain on Sale of Assets	10,486,155	-	-	10,486,155
Change in Value of Beneficial Interest in Trust Assets	501,149	-	-	501,149
Total Revenues and Investment Returns	<u>65,259,285</u>	<u>90,468</u>	<u>-</u>	<u>65,349,753</u>
NET ASSETS RELEASED FROM RESTRICTIONS				
Release of Program Restrictions	345,305	(345,305)	-	-
Release of Capital Expenditure Restrictions	2,465,000	(2,465,000)	-	-
Total Released from Restrictions	<u>2,810,305</u>	<u>(2,810,305)</u>	<u>-</u>	<u>-</u>
Total Public Support, Revenue and Investment Returns	<u>69,020,059</u>	<u>2,362,991</u>	<u>-</u>	<u>71,383,050</u>
EXPENSES				
Program Services	52,310,826	-	-	52,310,826
General and Administrative	4,017,625	-	-	4,017,625
Fundraising	1,070,671	-	-	1,070,671
Total Expenses	<u>57,399,122</u>	<u>-</u>	<u>-</u>	<u>57,399,122</u>
CHANGE IN NET ASSETS				
	11,620,937	2,362,991	-	13,983,928
Net Assets - Beginning of Year	<u>97,642,222</u>	<u>27,500</u>	<u>948,867</u>	<u>98,618,589</u>
NET ASSETS - END OF YEAR	<u><u>\$ 109,263,159</u></u>	<u><u>\$ 2,390,491</u></u>	<u><u>\$ 948,867</u></u>	<u><u>\$ 112,602,517</u></u>

See accompanying Notes to Combined Financial Statements.

2015

Unrestricted	Temporarily Restricted	Permanently Restricted	Total
\$ 1,024,102	\$ 456,619	\$ -	\$ 1,480,721
-	2,060,033	-	2,060,033
43,200	-	-	43,200
264,289	-	-	264,289
<u>1,331,591</u>	<u>2,516,652</u>	<u>-</u>	<u>3,848,243</u>
37,171,151	-	-	37,171,151
468,980	-	-	468,980
476,364	-	-	476,364
264,392	-	-	264,392
2,602,850	43,668	-	2,646,518
445,318	7,472	-	452,790
(1,002,326)	(13,990)	-	(1,016,316)
171,640	-	-	171,640
310,171	-	-	310,171
<u>40,908,540</u>	<u>37,150</u>	<u>-</u>	<u>40,945,690</u>
711,777	(711,777)	-	-
1,875,000	(1,875,000)	-	-
<u>2,586,777</u>	<u>(2,586,777)</u>	<u>-</u>	<u>-</u>
44,826,908	(32,975)	-	44,793,933
46,093,836	-	-	46,093,836
3,503,800	-	-	3,503,800
1,207,860	-	-	1,207,860
<u>50,805,496</u>	<u>-</u>	<u>-</u>	<u>50,805,496</u>
(5,978,588)	(32,975)	-	(6,011,563)
<u>103,620,810</u>	<u>60,475</u>	<u>948,867</u>	<u>104,630,152</u>
<u>\$ 97,642,222</u>	<u>\$ 27,500</u>	<u>\$ 948,867</u>	<u>\$ 98,618,589</u>

**ACH CHILD AND FAMILY SERVICES AND AFFILIATES
COMBINED STATEMENTS OF CASH FLOWS
YEARS ENDED DECEMBER 31, 2016 AND 2015**

	2016	2015
CASH FLOWS FROM OPERATING ACTIVITIES		
Changes in Net Assets	\$ 13,983,928	\$ (6,011,563)
Adjustments to Reconcile Change in Net Assets to Net Cash Used by Operating Activities:		
Net Realized and Unrealized (Gain) Loss on Investments	(1,259,809)	1,016,316
Realized Loss (Gain) on Sale of Property and Equipment	(10,322,481)	(172,645)
Noncash Change in Value of Beneficial Interest in Trust Assets	(93,021)	513,226
Bad Debt Expense	178,050	110,734
Depreciation Expense	1,157,200	903,412
Amortization Expense	22,993	12,460
Depletion Expense	494,680	-
In-Kind Contributions of Property and Equipment	-	(361,925)
(Increase) Decrease in Operating Assets:		
Grants and Program Receivable	(2,420,823)	(2,515,695)
Other Receivables	(56,781)	206,510
Prepaid Expenses	36,203	95,500
Promises to Give	(469,628)	(786,421)
Increase (Decrease) in Operating Liabilities:		
Accounts Payable and Accrued Liabilities	40,525	1,746,580
Contributions Restricted for Long-Term Purposes	(4,735,000)	(2,060,033)
Net Cash Used by Operating Activities	(3,443,964)	(7,303,544)
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchases of Property and Equipment	(3,355,007)	(5,401,659)
Proceeds from Sale of Property	12,133,598	60,294
Proceeds from Sale of Investments	8,768,098	12,914,906
Purchase of Investments	(8,180,298)	(11,601,805)
Change in Cash Restricted for Property and Equipment	(1,150,000)	-
Net Cash Provided (Used) by Investing Activities	8,216,391	(4,028,264)
CASH FLOWS FROM FINANCING ACTIVITIES		
Net (Payments) Draws on Line of Credit	(9,450,658)	9,947,180
Decrease in Restricted Cash	89,468	79,168
Proceeds from Contributions Restricted for:		
Investment in Property and Equipment	4,735,000	2,040,033
Net Cash (Used) Provided by Financing Activities	(4,626,190)	12,066,381
NET INCREASE IN CASH AND CASH EQUIVALENTS	146,237	734,573
Cash and Cash Equivalents - Beginning of Year	2,056,209	1,321,636
CASH AND CASH EQUIVALENTS - END OF YEAR	\$ 2,202,446	\$ 2,056,209
SUPPLEMENTAL CASH FLOW INFORMATION		
Interest Paid	\$ 271,455	\$ 268,823

See accompanying Notes to Combined Financial Statements.

**ACH CHILD AND FAMILY SERVICES AND AFFILIATES
COMBINED STATEMENTS OF FUNCTIONAL EXPENSES
YEARS ENDED DECEMBER 31, 2016 AND 2015**

	2016			
	Program Services	General and Administrative	Fundraising	Total
ACH Child and Family Services				
Salaries and Wages	\$ 7,909,194	\$ 1,393,448	\$ 457,582	\$ 9,760,224
Payroll Taxes and Employee Benefits	1,812,750	606,385	69,231	2,488,366
Total Personnel Expense	<u>9,721,944</u>	<u>1,999,833</u>	<u>526,813</u>	<u>12,248,590</u>
Occupancy and Maintenance	992,677	297,365	14,721	1,304,763
Vehicles	137,248	27,510	9	164,767
Insurance and Taxes	118,595	36,841	3,383	158,819
Food, Clothing and Supplies	360,069	98,035	11,999	470,103
Medical	14,559	-	-	14,559
Youth Activities	38,816	4	2,783	41,603
Education	3,533	-	130	3,663
Family Assistance	20,390	66	-	20,456
Foster Care Expenses	1,778,598	-	-	1,778,598
Other Program and Training Expense	365,667	-	175,830	541,497
Development and Promotion	11,104	-	10,651	21,755
Outreach and Awareness	157,479	135,087	120,982	413,548
Contract Services	440,806	469,097	28,885	938,788
Audit and Legal Services	1,635	117,188	168	118,991
Staff Development and Travel	345,402	126,144	11,463	483,009
Board Development	23	11,363	-	11,386
Miscellaneous Expenses	181,297	20,336	3,050	204,683
Capital Project Expenses	126,534	44,500	157,088	328,122
Interest Expense	-	99,342	-	99,342
OCOK Provider Payments	36,664,409	-	-	36,664,409
Total Expenses Before Depreciation and Pass Through	<u>51,480,785</u>	<u>3,482,711</u>	<u>1,067,955</u>	<u>56,031,451</u>
Depreciation and Amortization	416,529	30,785	2,716	450,030
Total Expenses - ACH	<u>51,897,314</u>	<u>3,513,496</u>	<u>1,070,671</u>	<u>56,481,481</u>
All Church Home for Children Foundation				
Legal and Professional Services	-	5,365	-	5,365
Total Expenses - Foundation	<u>-</u>	<u>5,365</u>	<u>-</u>	<u>5,365</u>
ACH Landowner				
Legal and Professional Services	-	10,000	-	10,000
Interest Expense	-	172,113	-	172,113
Depreciation and Amortization	413,512	316,651	-	730,163
Total Expenses - ACH Landowner	<u>413,512</u>	<u>498,764</u>	<u>-</u>	<u>912,276</u>
Total Expenses - Combined	<u>\$ 52,310,826</u>	<u>\$ 4,017,625</u>	<u>\$ 1,070,671</u>	<u>\$ 57,399,122</u>

See accompanying Notes to Combined Financial Statements.

2015

Program Services	General and Administrative	Fund Raising	Total
\$ 7,301,450	\$ 1,278,203	\$ 568,886	\$ 9,148,539
1,811,442	362,292	140,011	2,313,745
<u>9,112,892</u>	<u>1,640,495</u>	<u>708,897</u>	<u>11,462,284</u>
905,129	282,278	22,755	1,210,162
75,817	42,653	1,570	120,040
130,165	52,088	3,562	185,815
433,878	129,344	11,051	574,273
12,849	19	-	12,868
41,655	919	4,171	46,745
4,281	-	820	5,101
15,790	708	-	16,498
1,765,582	-	-	1,765,582
392,342	2,899	-	395,241
9,749	302	12,625	22,676
78,330	132,287	122,959	333,576
709,340	455,297	67,236	1,231,873
2,105	123,467	-	125,572
306,663	152,796	9,141	468,600
-	15,880	-	15,880
246,381	16,487	2,654	265,522
260,772	42,067	238,332	541,171
-	97,179	-	97,179
<u>30,798,248</u>	<u>-</u>	<u>-</u>	<u>30,798,248</u>
45,301,968	3,187,165	1,205,773	49,694,906
266,713	14,253	2,087	283,053
<u>45,568,681</u>	<u>3,201,418</u>	<u>1,207,860</u>	<u>49,977,959</u>
-	8,074	-	8,074
-	8,074	-	8,074
-	15,000	-	15,000
-	171,644	-	171,644
<u>525,155</u>	<u>107,664</u>	<u>-</u>	<u>632,819</u>
<u>525,155</u>	<u>294,308</u>	<u>-</u>	<u>819,463</u>
<u>\$ 46,093,836</u>	<u>\$ 3,503,800</u>	<u>\$ 1,207,860</u>	<u>\$ 50,805,496</u>

ACH CHILD AND FAMILY SERVICES AND AFFILIATES
NOTES TO COMBINED FINANCIAL STATEMENTS
DECEMBER 31, 2016 AND 2015

NOTE 1 ORGANIZATION AND OPERATIONS

ACH Child and Family Services (ACH) was established in 1915 by the Women's Federation of Churches to receive and manage donations of cash and property, and to distribute resources exclusively for the purpose of caring for dependent and neglected children. ACH is a Texas nonprofit corporation dedicated to the prevention, intervention, and treatment of child abuse, neglect, and family separation.

The All Church Home for Children Foundation is a Texas nonprofit corporation, organized to hold, manage, solicit, receive, administer, and invest assets for the exclusive use, benefit, and support of ACH Child and Family Services (ACH) in a manner that is responsive to the needs and demands of ACH.

ACH Landowner is a Texas nonprofit corporation, organized to support its sole member, ACH Child and Family Services (ACH) by providing financial and other resources to assist ACH in achieving the fulfillment of its mission. Specifically, ACH Landowner will hold, develop, and lease certain real property to ACH to be used for administration and programs.

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

This summary of significant accounting policies of ACH is presented to assist in understanding ACH's combined financial statements. The combined financial statements and notes are representations of ACH's management who are responsible for their integrity and objectivity. These accounting policies conform to accounting principles generally accepted in the United States of America (U.S. GAAP) and have been consistently applied in the preparation of the combined financial statements.

Combined Financial Statements

The accompanying combined financial statements include the accounts of ACH Child and Family Services, All Church Home for Children Foundation and ACH Landowner (collectively, ACH), since they are financially interrelated organizations. Significant intercompany transactions and balances have been eliminated in the combination.

Financial Statement Presentation

ACH presents the combined financial statements in accordance with U.S. GAAP. As such, ACH is required to report 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. The fund groups are reported in the three classes of net assets as follows:

Unrestricted Net Assets

These funds have no external restrictions and can be used for any purpose designated by the Board.

ACH CHILD AND FAMILY SERVICES AND AFFILIATES
NOTES TO COMBINED FINANCIAL STATEMENTS
DECEMBER 31, 2016 AND 2015

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Financial Statement Presentation (Continued)

Temporarily Restricted Net Assets

These funds generally represent funds for which the donor has limited the use of the funds by stipulating how or when the funds are to be used. The restrictions are satisfied either by passage of time or by actions of ACH.

Permanently Restricted Net Assets

These are funds that have been restricted by the donor and cannot be satisfied by the passage of time or by actions of ACH.

Use of Estimates

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

Cash and Cash Equivalents

ACH considers only cash in banks and cash on hand as cash and cash equivalents. These cash equivalents are financial instruments that potentially subject ACH to concentrations of credit risk. ACH places its cash with high credit-quality financial institutions and periodically maintains deposits in amounts that exceed FDIC insurance coverage. Management believes the risk of incurring material losses related to this credit risk is remote.

Grants, Program Service Fees, and Accounts Receivable

ACH's receivables consist principally of program service fees and grants from governmental agencies. ACH utilizes the allowance method for recognition of bad debts. Based on management's assessment of the credit history of grantors, an allowance for doubtful accounts of \$160,212 and \$100,000 was deemed necessary as of December 31, 2016 and 2015, respectively. Bad debt expense was \$178,050 and \$110,734 for the years ended December 31, 2016 and 2015, respectively.

Contributions Received and Promises to Give

Contributions are recognized when unconditional commitments are received and recorded as unrestricted, temporarily restricted, or permanently restricted support, depending on the existence and/or nature of any donor restrictions. Unconditional commitments which have been promised, but not yet received, are recorded as promises to give in the combined statement of financial position.

When a donor restriction expires, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the combined statement of activities as net assets released from restrictions.

ACH CHILD AND FAMILY SERVICES AND AFFILIATES
NOTES TO COMBINED FINANCIAL STATEMENTS
DECEMBER 31, 2016 AND 2015

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Property and Equipment

Expenditures for property and equipment in excess of \$2,500 and having a useful life of one year or more are capitalized and recorded on ACH's books at cost. Donations of significant property and equipment are recorded as support at their estimated fair value. Such donations are reported as unrestricted support unless the donor has restricted the donated asset to a specific purpose. Assets donated with explicit restrictions regarding their use and contributions of cash that must be used to acquire property and equipment are reported as restricted support. Absent donor stipulations regarding how long those donated assets must be maintained, ACH reports expirations of donor restrictions when the donated or acquired assets are placed in service as instructed by the donor. ACH reclassifies temporarily restricted net assets to unrestricted net assets at that time.

Maintenance, repairs, and minor renewals are expensed as incurred. When assets are retired or otherwise disposed of, their cost and related accumulated depreciation are removed from the accounts. Resulting gains or losses are included in income.

Depreciation of property and equipment is computed on the straight-line basis over their estimated useful lives. The estimated useful lives range from five to thirty years. Depreciation expense for 2016 and 2015 amounted to \$1,157,200 and \$903,412, respectively.

Impairment of Long-Lived Assets

Management evaluates its long-lived assets for financial impairment whenever events or changes in circumstances indicate the carrying value of an asset may not be recoverable. An impairment loss is recognized when the estimated undiscounted future cash flows from the assets are less than the carrying value of the assets. Assets to be disposed of are reported at the lower of their carrying amount or fair value, less cost to sell. Management is of the opinion that the carrying amount of its long-lived assets does not exceed their estimated recoverable amount.

Income Taxes

ACH is organized as a nonprofit corporation under Section 501(c)(3) of the Internal Revenue Code. This section exempts ACH from taxes on income. Accordingly, no provision for income taxes has been made in the combined financial statements. The Internal Revenue Service had previously classified ACH as a private foundation; however, ACH was approved for public charity status beginning in year 2011. The All Church Home for Children Foundation and ACH Landowner are classified as public charities. Taxes are paid on net income earned from sources unrelated to the exempt purposes. Net income(loss) from unrelated business for the years ended December 31, 2016 and 2015 was estimated at approximately (\$17,000) and \$50,000, respectively. Unrelated business income taxes of \$7,000 are accrued in the financials and included in functional expenses under "Insurance and Taxes." Tax returns are open for audit by these authorities for three years from the due date of the return of the date actually filed.

ACH CHILD AND FAMILY SERVICES AND AFFILIATES
NOTES TO COMBINED FINANCIAL STATEMENTS
DECEMBER 31, 2016 AND 2015

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Concentration of Credit Risk

Financial instruments which potentially subject ACH to concentrations of credit risk consist primarily of receivables from program services and amounts deposited in banks in excess of the Federal Deposit Insurance Corporation's insured limit.

Approximately 97% and 95% of total program receivables is due from one government agency as of December 31, 2016 and 2015.

Two donor commitments comprised 90% and 80% of the total balance of promises to give as of December 31, 2016 and 2015.

ACH currently invests in a variety of fixed income, equities, open and closed-end mutual funds and investment holding companies. Management believes diversity within the portfolio avoids significant concentration of credit risk with respect to these investments.

Investments and Fair Value

ACH follows FASB ASC No. 958-320. Under this section, investments in marketable securities with readily determinable fair values and all investments in debt securities are valued at their fair values in the combined statement of financial position. Investments in nonpublicly traded investment entities are recorded at fair value based on independent audits of these investment entities and their underlying investment securities. Investment income includes interest and dividends, net of investment expenses and is included in the combined statement of activities as increases in unrestricted net assets, unless the donor or law restricts the income or loss. Unrealized gains and losses are included in the change in net assets.

FASB ASC No. 820-10, *Fair Value Measurements*, establishes a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. This hierarchy consists of three broad levels: Level 1 inputs consist of unadjusted quoted prices in active markets for identical assets and have the highest priority, Level 2 inputs consist of other observable inputs (including quoted prices for similar securities, interest rates, prepayment spreads, credit risk, etc.) and Level 3 inputs have the lowest priority. ACH uses appropriate valuation techniques based on the available inputs to measure the fair value of its investments. When available, ACH measures fair value using Level 1 inputs because they generally provide the most reliable evidence of fair value.

Level 2 inputs are obtained on debt securities held which are not traded on a daily basis, and Level 3 inputs are used in determining the value of the investment partnership/hedge funds and the mineral interests and real estate owned by ACH that are not actively traded and significant other observable inputs are not available. Thus, the fair value of the mineral interests and real estate is equal to the lower of cost or estimated fair value of accumulated cost recovery. Investments in partnerships/hedge funds are carried at the audited net asset value of the investment.

ACH CHILD AND FAMILY SERVICES AND AFFILIATES
NOTES TO COMBINED FINANCIAL STATEMENTS
DECEMBER 31, 2016 AND 2015

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Mineral Interests and Real Estate

ACH's investments in real estate and mineral interests were acquired primarily by contribution and recorded at the estimated fair market value (cost) at the date of receipt. Market value is calculated by discounting future cash flows from estimated production and expected future market prices for the related minerals. These investments are carried at the lower of amortized cost or market value. Accordingly, the mineral interests have been amortized using an annual basis of 15% of the gross income generated by the interests.

Deferred Financing Costs

Deferred financing costs represent costs incurred in connection with the issuance of long-term debt. Such costs are being amortized over the term of the respective debt using the straight-line method, a method which approximates the effective interest rate method. At December 31, 2016 and 2015, deferred financing costs were \$99,684. At December 31, 2016 and 2015, accumulated amortization of deferred financing costs was \$92,564 and \$69,571, respectively. Amortization expense related to the deferred financing costs was \$22,993 and, \$12,460 respectively.

Donated Goods and Services

From time to time, ACH will receive donated goods, property, or other assets. These assets are recorded in the combined statement of financial position at their estimated fair value at the time of the gift. Revenue from such gifts is recognized as contributions in the combined statement of activities for the value of the asset. Gifts of property and equipment received during the years ended December 31, 2016 and 2015 totaled -\$0- and \$361,925, respectively.

No amounts have been reflected in the combined financial statements for donated services since the services did not meet the criteria for recognition. However, a number of volunteers donate significant amounts of their time to ACH.

Functional Allocation of Expenses

The costs of providing program, fund-raising and supporting services have been summarized on a functional basis in the combined statement of functional expenses. Accordingly, certain costs have been allocated among the programs and fundraising activities benefited.

Reclassifications

Certain reclassifications have been made to the December 31, 2015 combining financial statements in order to present them in conformity with the December 31, 2016 combining financial statements. These reclassifications have no effect on net assets as previously reported.

ACH CHILD AND FAMILY SERVICES AND AFFILIATES
NOTES TO COMBINED FINANCIAL STATEMENTS
DECEMBER 31, 2016 AND 2015

NOTE 3 NEW ACCOUNTING PRONOUNCEMENTS

The Organization has adopted the accounting guidance in the Financial Accounting Standards Board (FASB) Accounting Standards Update (ASU) No. 2015-03, *Interest – Imputation of Interest (Subtopic 835-30): Simplifying the Presentation of Debt Issuance Costs*. ASU 2015-03 requires organizations to present debt issuance costs as a direct deduction from the face amount of the related borrowings, amortize debt issuance costs using the effective interest method over the life of the debt, and record the amortization as a component of interest expense. The effect of adopting the new standard decreased the debt issuance costs asset to zero and decreased the debt liability by \$30,113 as of January 1, 2016. The adoption of the standard has no effect on previously reported net assets. The ASU is effective for fiscal years beginning after December 15, 2015, with early adoption permitted. The ASU is retrospectively applied.

NOTE 4 RESTRICTED CASH

Restricted cash consists of funds held in trust by the Bank of America/U.S. Trust for ACH to use for construction and improvements to certain real property to be used in future operations. The cash balance of \$215,082 and \$304,550 as of December 31, 2016 and 2015, respectively, is held by Bank of America/U.S. Trust in accordance with certain debt instruments reflected in Note 11 to the combined financial statements.

Cash Restricted for Capital Improvements consists of cash to be used for renovation of the dining hall and basketball court. Of the capital campaign contributions in temporarily restricted net assets, \$1,100,000 represents promises to give, and \$1,170,000 represents restricted cash.

NOTE 5 PROMISES TO GIVE

ACH recognizes unconditional promises to give as support in the period the promise to give is made and reports them as contributions in the statement of activities. Contributions that are expected to be collected in future years are recorded at the present value of the amount expected to be collected. The discount rate has been imputed at 2.0% which approximates the Organization's risk free borrowing rate at December 31, 2016 and 2015. At December 31, 2016 and 2015, all promises to give are considered fully collectible and no allowance for doubtful accounts has been estimated. Promises to give consist of the following at December 31, 2016 and 2015:

	2016	2015
Promises to Give	\$ 1,384,286	\$ 812,336
Present Value Discount	(102,322)	-
Promises to Give, Net	<u>\$ 1,281,964</u>	<u>\$ 812,336</u>

ACH CHILD AND FAMILY SERVICES AND AFFILIATES
NOTES TO COMBINED FINANCIAL STATEMENTS
DECEMBER 31, 2016 AND 2015

NOTE 5 PROMISES TO GIVE (CONTINUED)

At December 31, 2016, promises to give are expected to be received as follows:

<u>Year Ending December 31,</u>	<u>Amount</u>
2017	\$ 477,286
2018	100,000
2019	107,000
2020	100,000
2021	100,000
Thereafter	500,000
Total	<u>\$ 1,384,286</u>

NOTE 6 INVESTMENTS

Publicly Traded/Listed Securities

Investments in publicly traded debt and equity securities as well as open and closed-end listed mutual funds are carried at fair market value and are comprised of the following as of:

December 31, 2016

<u>Investment Description</u>	<u>Fair Market Value</u>	<u>Cost</u>	<u>Cumulative Unrealized Appreciation (Depreciation)</u>
Short-Term Investment Funds	\$ 1,754,846	\$ 1,754,846	\$ -
Fixed Income Mutual Funds-Domestic	7,527,174	7,827,506	(300,332)
Equity Mutual Funds-Domestic	6,767,183	5,312,532	1,454,651
Equity Mutual Funds-International	12,416,290	12,695,470	(279,180)
Stocks-Domestic	7,265,710	6,664,468	601,242
Total Publicly Traded/Listed Securities	<u>\$ 35,731,203</u>	<u>\$ 34,254,822</u>	<u>\$ 1,476,381</u>

December 31, 2015

<u>Investment Description</u>	<u>Fair Market Value</u>	<u>Cost</u>	<u>Cumulative Unrealized Appreciation (Depreciation)</u>
Short-Term Investment Funds	\$ 1,873,976	\$ 1,873,976	\$ -
Fixed Income Mutual Funds-Domestic	6,174,316	6,494,899	(320,583)
Fixed Income Mutual funds-International	1,487,025	1,762,888	(275,863)
Equity Mutual Funds-Domestic	6,068,263	4,997,318	1,070,945
Equity Mutual Funds-International	11,330,741	12,038,280	(707,539)
Stocks-Domestic	8,243,571	7,350,352	893,219
Total Publicly Traded/Listed Securities	<u>\$ 35,177,892</u>	<u>\$ 34,517,713</u>	<u>\$ 660,179</u>

ACH CHILD AND FAMILY SERVICES AND AFFILIATES
NOTES TO COMBINED FINANCIAL STATEMENTS
DECEMBER 31, 2016 AND 2015

NOTE 6 INVESTMENTS (CONTINUED)

Nonpublicly Traded Securities

Investments in nonpublicly traded investment holding company entities are carried at fair value which is based on an independent audit of the entities and their underlying investment securities. Following are these nonpublicly traded investments as of:

<u>December 31, 2016</u>				Cumulative Unrealized Appreciation (Depreciation)
Hedge Fund Description		Fair Value	Cost	
Blackstone Tactical Opportunities Fund	(d)	\$ 1,597,885	\$ 1,752,406	\$ (154,521)
Golden Tree Offshore Fund, Ltd.	(b)	2,429,814	1,654,738	775,076
Pointer Offshore Ltd.	(c)	2,042,286	1,050,000	992,286
Skybridge Multi-Advisor Hedge Fund	(a)	1,797,345	2,071,286	(273,941)
The Weatherflow Offshore Fund	(a)	2,274,776	1,809,142	465,634
Third Point Offshore Fund	(e)	2,528,447	1,528,515	999,932
Canyon Value Realization Fund	(g)	1,243,424	1,175,000	68,424
HPC Millennium Int'l Ltd.	(f)	1,630,865	1,500,000	130,865
Total Nonpublicly Traded Securities		<u>\$ 15,544,842</u>	<u>\$ 12,541,087</u>	<u>\$ 3,003,755</u>

<u>December 31, 2015</u>				Cumulative Unrealized Appreciation (Depreciation)
Hedge Fund Description		Fair Value	Cost	
BA Cayman Fund Ltd.	(a)	\$ 179,392	\$ -	\$ 179,392
Blackstone Tactical Opportunities Fund	(d)	1,685,164	1,669,706	15,458
Golden Tree Offshore Fund, Ltd.	(b)	2,250,772	1,654,738	596,034
Pointer Offshore Ltd.	(c)	3,593,091	2,500,000	1,093,091
Skybridge Multi-Advisor Hedge Fund	(a)	3,304,479	3,161,005	143,474
The Weatherflow Offshore Fund	(a)	2,252,606	1,809,142	443,464
Third Point Offshore Fund	(e)	2,383,351	1,528,515	854,836
Canyon Value Realization Fund	(g)	1,142,723	1,175,000	(32,277)
HPC Millennium Int'l Ltd.	(f)	1,584,566	1,500,000	84,566
Total Nonpublicly Traded Securities		<u>\$ 18,376,144</u>	<u>\$ 14,998,106</u>	<u>\$ 3,378,038</u>

- (a) These funds have no lock-up restrictions, nor any liquidity restrictions greater than 65 days, if any.
- (b) It has a 12-month initial lockup (purchased during 2012) and quarterly liquidity with a 90 day notice.
- (c) It has a 24-month initial lockup (purchased during 2012) and annual liquidity with notice by September 15th.
- (d) It has a 36-month initial lockup (purchased during 2013). Unfunded capital commitments totaled \$355,989.
- (e) The lock up restriction has expired and quarterly liquidity with a 65 day notice.
- (f) Quarterly withdrawals with 95 day notice. Withdrawals are limited to 25% of partners' capital.
- (g) Quarterly withdrawals with notice being required to be given by the 20th calendar day of the first month of the applicable fiscal quarter. Withdrawals are limited to 25% of partners' capital.

ACH CHILD AND FAMILY SERVICES AND AFFILIATES
NOTES TO COMBINED FINANCIAL STATEMENTS
DECEMBER 31, 2016 AND 2015

NOTE 6 INVESTMENTS (CONTINUED)

Fair Value Hierarchy Measurements

The above investments were classified as follows at December 31:

	2016			Total
	Level 1	Level 2	Level 3	
Short-Term Investment Funds	\$ 1,754,846	\$ -	\$ -	\$ 1,754,846
Fixed Income Mutual Funds-Domestic	7,527,174	-	-	7,527,174
Equity Mutual Funds-Domestic	6,767,183	-	-	6,767,183
Equity Mutual Funds-International	12,416,290	-	-	12,416,290
Stocks-Domestic	7,265,710	-	-	7,265,710
Nonpublicly Traded Hedge Funds	-	-	15,544,842	15,544,842
Totals	<u>\$ 35,731,203</u>	<u>\$ -</u>	<u>\$ 15,544,842</u>	<u>\$ 51,276,045</u>

	2015			Total
	Level 1	Level 2	Level 3	
Short-Term Investment Funds	\$ 1,873,976	\$ -	\$ -	\$ 1,873,976
Fixed Income Mutual Funds-Domestic	6,174,316	-	-	6,174,316
Fixed Income Mutual Funds-International	1,487,025	-	-	1,487,025
Equity Mutual Funds-Domestic	6,068,263	-	-	6,068,263
Equity Mutual Funds-International	11,330,741	-	-	11,330,741
Stocks-Domestic	8,243,571	-	-	8,243,571
Nonpublicly Traded Hedge Funds	-	-	18,376,144	18,376,144
Totals	<u>\$ 35,177,892</u>	<u>\$ -</u>	<u>\$ 18,376,144</u>	<u>\$ 53,554,036</u>

Transfers between Levels 1 and 2 generally related to whether a market becomes active or inactive. Transfers between Level 2 and 3 generally relate to a change in the liquidity restrictions of the private investment companies. The Partnerships in which ACH invests generally use the capital balance or net asset value of underlying funds as a primary significant unobservable input in their valuations; however, adjustments to the reported capital balance may be made on various factors, including, but not limited to, the attributes of the interest held, including the rights and obligations, any restrictions or illiquidity of such interest, any potential callbacks by the Investment Partnership, changes in the investment funds' lock-up periods, and the fair value of the underlying investment portfolio or other assets and liabilities.

A reconciliation of the change in the fair values of Level 3 investments is as follows:

	Changes in Level 3 Fair Values
Beginning Balance, December 31, 2015	\$ 18,376,144
Realized Gains and Losses	63,855
Unrealized Gains and Losses	380,092
Capital Contributions	120,408
Distributions of Capital and Reinvested Earnings	(3,373,758)
Other Income and Loss, Net of Fees	(21,899)
Ending Balance, December 31, 2016	<u>\$ 15,544,842</u>

ACH CHILD AND FAMILY SERVICES AND AFFILIATES
NOTES TO COMBINED FINANCIAL STATEMENTS
DECEMBER 31, 2016 AND 2015

NOTE 6 INVESTMENTS (CONTINUED)

A reconciliation of the change in the fair values of Level 3 investments is as follows:

	Changes in Level 3 Fair Values
Beginning Balance, December 31, 2014	\$ 17,687,182
Realized Gains and Losses	(9,463)
Unrealized Gains and Losses	(608,560)
Purchases	2,502,226
Capital Contributions	328,992
Sales	(1,123,959)
Distributions of Capital and Reinvested Earnings	(381,049)
Other Income and Loss, Net of Fees	(19,225)
Ending Balance, December 31, 2015	<u>\$ 18,376,144</u>

Mineral Interests and Real Estate

Investments in mineral interests and real estate are carried at the lower of cost or estimated fair value. The balance reflected on the combined statement of financial condition of \$22,387,326 and \$22,882,006 represents amortized cost since historical cost is considered a stronger indicator of fair value due to availability of fair value information and discrepancies in bank trustee calculations due to the timing of transfers of mineral rights between bank trustees. During the years ended December 31, 2016 and 2015, there were no purchases of mineral interests or real estate.

Investment Returns

The following schedules summarize the investment returns, on all investments, for the years ended December 31:

	2016	2015
Mineral Income	\$ 4,302,331	\$ 2,757,748
Real Estate Income	8,082	40,087
Less: Depletion	(494,680)	-
Less: Mineral Expense	(334,844)	(144,295)
Less: Real Estate Expense	(8,567)	(7,022)
Net Mineral and Real Estate Income	<u>\$ 3,472,322</u>	<u>\$ 2,646,518</u>
Dividends and Interest	\$ 995,756	\$ 826,613
Less: Investment Advisory and Bank Fees	(427,067)	(373,823)
Net Investment Income	<u>\$ 568,689</u>	<u>\$ 452,790</u>
Net Realized Gains (Losses) on Investment Securities	\$ 814,524	\$ (1,232,096)
Net Realized Gains on Sale of Other Assets Held for Investment	-	171,640
Net Unrealized Gains on Investment Securities	<u>445,285</u>	<u>215,767</u>
Net Realized and Unrealized Gains (Losses) on Investments	<u>\$ 1,259,809</u>	<u>\$ (844,689)</u>

ACH CHILD AND FAMILY SERVICES AND AFFILIATES
NOTES TO COMBINED FINANCIAL STATEMENTS
DECEMBER 31, 2016 AND 2015

NOTE 7 BENEFICIAL INTEREST IN TRUST

ACH has a beneficial interest in the trust. ACH's share of the net assets of the Trust is reflected at estimated fair value. The composition of ACH's share of the net assets of the Trust as of December 31, 2016 and 2015 is as follows:

<u>December 31, 2016</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Short-Term Investment Funds	\$ 315,485	\$ -	\$ -	\$ 315,485
Equities	6,329,502	-	-	6,329,502
Fixed Income Securities	-	1,291,502	-	1,291,502
Hedge Funds	-	-	925,889	925,889
Real Estate	-	-	569,955	569,955
Commodities	-	-	296,762	296,762
Totals	<u>\$ 6,644,987</u>	<u>\$ 1,291,502</u>	<u>\$ 1,792,606</u>	<u>\$ 9,729,095</u>

<u>December 31, 2015</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Short-Term Investment Funds	\$ 530,906	\$ -	\$ -	\$ 530,906
Fixed Income Securities	-	877,310	-	877,310
Equity Securities	6,277,227	-	1,095,389	7,372,616
Real Estate and Mineral Interests	-	-	855,242	855,242
Totals	<u>\$ 6,808,133</u>	<u>\$ 877,310</u>	<u>\$ 1,950,631</u>	<u>\$ 9,636,074</u>

A reconciliation of the change in the fair values of Level 3 investments is as follows:

	<u>Changes in Level 3</u> <u>Fair Values</u>
Beginning Balance, December 31, 2015	\$ 1,950,631
Unrealized Gains and Losses	(82,827)
Sales and Distributions of Capital and Reinvested Earnings	(75,198)
Ending Balance, December 31, 2016	<u>\$ 1,792,606</u>

ACH received cash distributions of \$408,128 and \$806,215 and recognized an unrealized increase in the value of the trust of \$501,149 and \$310,171 during the years ended December 31, 2016 and 2015 resulting in a net increase (decrease) in value of beneficial interest in trust assets of \$93,021 and \$(496,044).

During the final quarter of 2014, the trust elected to distribute all of its underlying mineral rights to its two beneficiaries. Accordingly, ACH received its proportion of the minerals holdings and related income streams directly from the Trust into its own custodianship during 2015 after applicable transfers of title and changes in purchasers of record were completed. Such minerals were recorded at their fair value as of the date of transfer of \$21,222,881, and are presented in the Combined Statement of Financial Position in Mineral Interests and Real Estate.

ACH CHILD AND FAMILY SERVICES AND AFFILIATES
NOTES TO COMBINED FINANCIAL STATEMENTS
DECEMBER 31, 2016 AND 2015

NOTE 8 NOTE RECEIVABLE

At December 31, 2016, ACH has a note receivable from BOA Investment Fund III, LLC in the amount of \$9,070,750 with interest payable annually at 1%. Principal and interest payments of the note are to commence in June 2018 with final payment due June 2047. The note is unsecured. This note receivable originated with the issuance of certain debt instruments reflected in Note 11 to the combined financial statements. However, there is not a right of offset with these debt instruments.

NOTE 9 PROPERTY AND EQUIPMENT

Property and equipment is comprised of the following as of December 31:

	2016	2015
Land	\$ 2,279,597	\$ 3,573,594
Buildings and Improvements	27,173,012	26,483,851
Furniture, Fixtures and Equipment	1,297,843	2,146,631
Automobiles	557,053	595,931
Construction in Progress	724,010	205,466
Total Property and Equipment	<u>32,031,515</u>	<u>33,005,473</u>
Less: Accumulated Depreciation	<u>(6,886,591)</u>	<u>(8,247,239)</u>
Net Property and Equipment	<u>\$ 25,144,924</u>	<u>\$ 24,758,234</u>

NOTE 10 LINE OF CREDIT

ACH maintains a line of credit with a financial institution which has a maximum amount of \$17,000,000 and an open-ended maturity. Interest is payable monthly at the LIBOR rate plus 1.25%. The line of credit is currently secured by ten of ACH's sub-investment accounts with a fair value at December 31, 2016 of \$19,222,116 (the financial institution calculates a borrowing base of 70% to 100% on this amount based upon the type of underlying investments). There was \$2,450,124 and \$11,900,782 outstanding on the line of credit as of December 31, 2016 and 2015, respectively.

ACH CHILD AND FAMILY SERVICES AND AFFILIATES
NOTES TO COMBINED FINANCIAL STATEMENTS
DECEMBER 31, 2016 AND 2015

NOTE 11 NOTES PAYABLE

ACH, specifically ACH Landowner, was obligated on the following notes payable as of December 31:

<u>Payable to and Terms:</u>	<u>2016</u>	<u>2015</u>
Bank of America CDE III, interest accrued monthly, paid annually, at 1.00% until June 4, 2018, then principal and interest is due annually until maturity at June 4, 2047.	\$ 9,070,750	\$ 9,070,750
Bank of America CDE III, interest accrued monthly, paid annually, at 2.00% until June 1, 2018, then principal and interest is due annually until maturity at June 4, 2047.	<u>3,929,250</u>	<u>3,929,250</u>
Total Notes Payable	<u><u>\$ 13,000,000</u></u>	<u><u>\$ 13,000,000</u></u>

The notes payable are due in the following installments as of December 31, 2016:

<u>Due in Year Ending</u>	
2017	\$ -
2018	373,725
2019	377,463
2020	381,237
2021	385,050
Thereafter	<u>11,482,525</u>
Total Notes Payable	<u><u>\$ 13,000,000</u></u>

All of the above notes are secured by the deed of trust on the Wichita property.

The above notes payable may be paid off early in the year 2017 at a discount of \$3,889,957 to the principal balance above. See NOTE 15 on subsequent events.

NOTE 12 TEMPORARILY RESTRICTED NET ASSETS

Temporarily restricted net assets were restricted for the following purposes as of December 31, 2016 and 2015:

	<u>2016</u>	<u>2015</u>
Capital Campaign - Basketball Court	\$ 20,000	\$ 20,000
Capital Campaign - Dining Hall	2,250,000	-
Morris Home	100,000	-
Wellness Program	20,000	-
School Supplies	491	-
LIFE Program	-	7,500
	<u><u>\$ 2,390,491</u></u>	<u><u>\$ 27,500</u></u>

ACH CHILD AND FAMILY SERVICES AND AFFILIATES
NOTES TO COMBINED FINANCIAL STATEMENTS
DECEMBER 31, 2016 AND 2015

NOTE 13 PERMANENTLY RESTRICTED NET ASSETS AND ENDOWMENT FUNDS

The Board of Directors of ACH has interpreted the State Prudent Management of Institutional Funds Act (SPMIFA) 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, ACH classifies as permanently restricted net assets (a) the original value of gifts donated to the permanent endowment, (b) the original value of subsequent gifts to the permanent endowment, and (c) accumulations to the permanent endowment made in accordance with the direction of the applicable donor gift instrument as the accumulation is added to the fund. The remaining portion of the donor-restricted endowment fund that is not classified in permanently restricted net assets is classified as temporarily restricted net assets until those amounts are appropriated for expenditure by ACH in a manner consistent with the standard of prudence prescribed by SPMIFA. In accordance with SPMIFA, ACH 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 ACH and 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 ACH.
- 7) The investment policies of ACH.

Permanently restricted net assets are restricted to investments in perpetuity.

Board-Designated Endowments

The Board of Directors had designated \$76,110,297 and \$54,649,097 at December 31, 2016 and 2015, respectively, of unrestricted net assets as a general endowment to support the mission of ACH. Since that amount resulted from an internal designation and is not donor-restricted, it is classified and reported as unrestricted net assets.

Donor-Designated Endowments

ACH's permanent endowment consists of three funds totaling \$948,867 established to assist in funding residential activities.

Return Objectives and Risk Parameters

ACH has a spending policy of appropriating for distribution each year 5% of the rolling average of the previous three audited calendar years' investment corpus. In establishing this policy, ACH considered the long-term expected investment return on its endowment. Accordingly, over the long-term, ACH expects the current spending policy to allow its general endowment fund to grow at an average of 4% annually. This is consistent with ACH's objective to maintain the purchasing power of the endowment assets as well as to provide additional real growth through investment return.

ACH CHILD AND FAMILY SERVICES AND AFFILIATES
NOTES TO COMBINED FINANCIAL STATEMENTS
DECEMBER 31, 2016 AND 2015

NOTE 13 PERMANENTLY RESTRICTED NET ASSETS AND ENDOWMENT FUNDS (CONTINUED)

Strategies Employed for Achieving Objectives

To achieve that objective, ACH has adopted an investment policy that attempts to maximize total return consistent with an acceptable level of risk. Endowment assets are invested in a well-diversified asset mix, which includes equity and debt securities, that 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 fund if possible.

Accordingly, ACH expects its endowment assets, over time, to produce an average rate of return of approximately 9% annually. Actual returns in any given year may vary from this amount. 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.

Composition of and changes in endowment net assets for the years ended December 31 were as follows:

	2016		
	Board	Donor	Total
	Designated	Designated	
Endowment Net Assets - Beginning of Year	\$ 54,649,097	\$ 948,867	\$ 55,597,964
Investment from ACH Designated by Board to Endowment	21,222,881	-	21,222,881
Investment Income, Net of Fees	558,983	9,706	568,689
Mineral and Real Estate Properties, Net of Expenses	3,413,061	59,261	3,472,322
Net Realized and Unrealized Gains on Investments	1,238,308	21,501	1,259,809
Legal Expenses on Real Estate	(5,273)	(92)	(5,365)
Amounts Transferred for Expenditure	(4,966,760)	(90,376)	(5,057,136)
Endowment Net Assets, End of Year	<u>\$ 76,110,297</u>	<u>\$ 948,867</u>	<u>\$ 77,059,164</u>
	2015		
	Board	Donor	Total
	Designated	Designated	
Endowment Net Assets - Beginning of Year	\$ 56,610,312	\$ 948,867	\$ 57,559,179
Investment Income, Net of Fees	445,318	7,472	452,790
Mineral and Real Estate Properties, Net of Expenses	2,602,850	43,668	2,646,518
Net Realized and Unrealized Losses on Investments	(830,699)	(13,990)	(844,689)
Legal Expenses on Real Estate	(7,941)	(133)	(8,074)
Amounts Transferred for Expenditure	(4,170,743)	(37,017)	(4,207,760)
Endowment Net Assets, End of Year	<u>\$ 54,649,097</u>	<u>\$ 948,867</u>	<u>\$ 55,597,964</u>

ACH CHILD AND FAMILY SERVICES AND AFFILIATES
NOTES TO COMBINED FINANCIAL STATEMENTS
DECEMBER 31, 2016 AND 2015

NOTE 14 EMPLOYEE BENEFIT PLAN

ACH sponsors a 401(k) plan for all qualified employees. ACH matches employee contributions at a rate of \$1.00 for each employee dollar up to 3% of the employee's salary and then an additional \$0.50 for each employee dollar up to an additional 2% of the employee's salary. Employer contributions to the Plan amounted to \$182,975 and \$154,254 during the years ended December 31, 2016 and 2015, respectively.

NOTE 15 SUBSEQUENT EVENTS

In March 2017, ACH signed a contract for the renovation of its dining hall. The maximum price of the contract was \$3,990,145, with renovations expected to be completed in November 2017.

On June 5, 2017, ACH exercised its option for early repayment of certain notes payable and unwound its New Market Tax Credit arrangement with Bank of America CDE III, LLC and BOA Investment Fund, LLC. In settlement of this arrangement notes payable in the amount of \$13,000,000 were redeemed with a cash payment of \$124,146 (of which \$39,293 represented principal and the remainder represented interest and fees), settlement of a note receivable held by ACH Child and Family Services of \$9,070,750, and forgiveness of the remaining \$3,889,957 in accordance with the terms of the original agreement.

During June 2017, ACH formed a new entity, Landowner II, and closed on a new agreement to form a New Market Tax Credit arrangement with several investors. As part of this arrangement, the consolidated entity received approximately \$14,200,000 in new funding, and funded a note receivable in the amount of \$9,771,940 as part of its equity investment in the arrangement. The agreement allows for forgiveness of approximately \$4,818,060 at the unwinding of the arrangement.

ACH has evaluated subsequent events through September 21, 2017, which is the date that combined financial statements were available to be issued.



CliftonLarsonAllen

CliftonLarsonAllen LLP
CLAconnect.com

**INDEPENDENT AUDITORS' REPORT
ON COMBINING INFORMATION**

The Board of Directors
ACH Child and Family Services and Affiliates
Fort Worth, Texas

We have audited the combined financial statements of ACH Child and Family Services and Affiliates (ACH) as of and for the year ended December 31, 2016 and have issued our report thereon date September 21, 2017, which contained an unmodified opinion on those combined financial statements. Our audit was performed for the purpose of forming an opinion on the combined financial statements as a whole. The combining statement of financial position and combining statement of activities are presented for the purpose of additional analysis and are not a required part of the combined 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 combined financial statements. The information has been subjected to the auditing procedures applied in the audit of the combined financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the combined financial statements or to the combined financial statements themselves, and additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the combined financial statements as a whole.

CliftonLarsonAllen LLP

CliftonLarsonAllen LLP

Fort Worth, Texas
September 21, 2017

**ACH CHILD AND FAMILY SERVICES AND AFFILIATES
COMBINING STATEMENT OF FINANCIAL POSITION
DECEMBER 31, 2016**

ASSETS	ACH Child and Family Services	All Church Home for Children Foundation	ACH Landowner	Eliminations	Total
Cash and Cash Equivalents	\$ 1,398,005	\$ 581,947	\$ 222,494	\$ -	\$ 2,202,446
Restricted Cash	-	-	215,082	-	215,082
Cash Restricted for Capital Improvements	1,170,000	-	-	-	1,170,000
Grants Receivable, Net of Allowance for Doubtful Accounts of \$160,212	7,296,855	-	-	-	7,296,855
Accrued Interest Receivable	52,188	-	-	-	52,188
Other Receivables	3,760,535	-	-	(3,564,099)	196,436
Due From Investment Custodian	-	2,950,000	-	-	2,950,000
Prepaid Expenses	133,695	-	-	-	133,695
Promises to Give, Net	1,281,964	-	-	-	1,281,964
Investments - Publicly Traded/Listed Securities	-	35,731,203	-	-	35,731,203
Investments - Nonpublicly Traded	-	15,544,842	-	-	15,544,842
Mineral Interest and Real Estate, Net	-	22,387,326	-	-	22,387,326
Economic Interests in Affiliates	77,148,472	-	-	(77,148,472)	-
Beneficial Interest in Trust	9,729,095	-	-	-	9,729,095
Note Receivable	9,070,750	-	-	-	9,070,750
Property and Equipment, Net	8,972,202	-	16,172,722	-	25,144,924
Total Assets	\$ 120,013,761	\$ 77,195,318	\$ 16,610,298	\$ (80,712,571)	\$ 133,106,806
LIABILITIES AND NET ASSETS					
LIABILITIES					
Accounts Payable and Accrued Liabilities	\$ 4,961,120	136,154	\$ 3,528,110	\$ (3,564,099)	\$ 5,061,285
Line of Credit	2,450,124	-	-	-	2,450,124
Notes Payable	-	-	13,000,000	-	13,000,000
Debt Issuance Costs, Unamortized Portion	-	-	(7,120)	-	(7,120)
Total Liabilities	7,411,244	136,154	16,520,990	(3,564,099)	20,504,289
NET ASSETS					
Unrestricted:					
Undesignated	33,152,862	-	89,308	(89,308)	33,152,862
Board Designated Endowment	76,110,297	76,110,297	-	(76,110,297)	76,110,297
	109,263,159	76,110,297	89,308	(76,199,605)	109,263,159
Temporarily Restricted	2,390,491	-	-	-	2,390,491
Permanently Restricted	948,867	948,867	-	(948,867)	948,867
Total Net Assets	112,602,517	77,059,164	89,308	(77,148,472)	112,602,517
Total Liabilities and Net Assets	\$ 120,013,761	\$ 77,195,318	\$ 16,610,298	\$ (80,712,571)	\$ 133,106,806

**ACH CHILD AND FAMILY SERVICES AND AFFILIATES
COMBINING STATEMENT OF ACTIVITIES
YEAR ENDED DECEMBER 31, 2016**

	ACH Child and Family Services	All Church Home for Children Foundation	ACH Landowner	Eliminations	Total
PUBLIC SUPPORT					
Contributions	\$ 1,000,896	\$ -	\$ -	\$ -	\$ 1,000,896
Capital Campaign Contributions	4,735,000	-	-	-	4,735,000
Estates and Trusts	125,000	-	-	-	125,000
Special Events, Net of Direct Costs of \$72,373	172,401	-	-	-	172,401
Total Public Support	<u>6,033,297</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>6,033,297</u>
REVENUE AND INVESTMENT RETURNS					
Program Service Fee	47,650,946	-	-	-	47,650,946
Government Grant Income	398,382	-	-	-	398,382
Rental and Other Income	384,899	-	185,000	(185,000)	384,899
Interest and Other Income	626,975	-	427	-	627,402
Net Income from Affiliates	4,502,377	-	-	(4,502,377)	-
Mineral and Real Estate Properties, Net	-	3,472,322	-	-	3,472,322
Investment Income, Net	-	568,689	-	-	568,689
Realized and Unrealized Gains(Losses) on Investments, Net	-	1,259,809	-	-	1,259,809
Realized Gain on Sale of Assets	10,552,384	-	(66,229)	-	10,486,155
Changes in Value of Beneficial Interest in Trust Assets	501,149	-	-	-	501,149
Total Revenue and Investment Returns	<u>64,617,112</u>	<u>5,300,820</u>	<u>119,198</u>	<u>(4,687,377)</u>	<u>65,349,753</u>
Total Public Support, Revenue and Investment Returns	<u>70,650,409</u>	<u>5,300,820</u>	<u>119,198</u>	<u>(4,687,377)</u>	<u>71,383,050</u>
EXPENSES					
Program Services	52,082,314	-	413,512	(185,000)	52,310,826
General and Administrative	3,513,496	5,365	498,764	-	4,017,625
Fundraising	1,070,671	-	-	-	1,070,671
Total Expenses	<u>56,666,481</u>	<u>5,365</u>	<u>912,276</u>	<u>(185,000)</u>	<u>57,399,122</u>
CHANGE IN NET ASSETS					
	13,983,928	5,295,455	(793,078)	(4,502,377)	13,983,928
Net Assets - Beginning of Year	98,618,589	55,597,964	882,386	(56,480,350)	98,618,589
Increase in Investment in Foundation	-	21,222,881	-	(21,222,881)	-
Distributions Between ACH and Affiliates	-	(5,057,136)	-	5,057,136	-
NET ASSETS - END OF YEAR	<u>\$ 112,602,517</u>	<u>\$ 77,059,164</u>	<u>\$ 89,308</u>	<u>\$ (77,148,472)</u>	<u>\$ 112,602,517</u>