Jefferson County Committee for Economic Opportunity

Financial Statements
December 31, 2016

Contents

RSM US LLP

Independent Auditor's Report

To the Board of Directors
Jefferson County Committee for Economic Opportunity

Report on the Financial Statements

We have audited the accompanying financial statements of Jefferson County Committee for Economic Opportunity, which comprise the statements of financial position as of December 31, 2016 and 2015, and the related statements of activities, functional expenses and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

Auditor's 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 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 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 auditor's 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 Jefferson County Committee for Economic Opportunity as of December 31, 2016 and 2015, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated September 12, 2017, on our consideration of Jefferson County Committee for Economic Opportunity's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of Jefferson County Committee for Economic Opportunity's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Jefferson County Committee for Economic Opportunity's internal control over financial reporting and compliance.

RSM US LLP

Birmingham, Alabama
September 12, 2017

Jefferson County Committee for Economic Opportunity

Statements of Financial Position
December 31, 2016 and 2015

		2016		2015
Assets				
Current assets:				
Cash	**$**	**1,687,924**	$	509,677
Cash – restricted		**171,738**		185,847
Grants and contracts receivable		**1,355,535**		2,843,351
Prepaid expenses and other assets		**88,637**		5,730
Total current assets		**3,303,834**		3,544,605
Unconditional promises to give use of facilities		**8,130,442**		10,981,745
Investments – restricted		**183,022**		178,913
Property and equipment, net		**4,844,575**		4,735,978
Total assets	**$**	**16,461,873**	$	19,441,241
Liabilities and Net Assets				
Current liabilities:				
Accounts payable	**$**	**597,101**	$	876,443
Accrued compensation		**707,366**		706,878
Deferred revenue		**458,325**		-
Current portion of long-term debt		**173,087**		167,142
Total current liabilities		**1,935,879**		1,750,463
Long-term debt, less current portion		**1,172,717**		1,344,858
Total liabilities		**3,108,596**		3,095,321
Commitments and contingencies				
Net assets:				
Unrestricted		**4,868,075**		4,999,415
Temporarily restricted		**8,485,202**		11,346,505
Total net assets		**13,353,277**		16,345,920
Total liabilities and net assets	**$**	**16,461,873**	$	19,441,241

See notes to financial statements.

Jefferson County Committee for Economic Opportunity

Statement of Activities
Year Ended December 31, 2016

	Unrestricted	Temporarily Restricted	Total
Support and revenue:			
Government grants and contracts	$ 26,203,141	$ -	$ 26,203,141
Contributions	2,035,931	312,709	2,348,640
Program service fees	133,871	-	133,871
Realized and unrealized gain on investments	4,109	-	4,109
Interest income	65	-	65
Other revenue	32,941	-	32,941
	28,410,058	312,709	28,722,767
Net assets released from restrictions	3,174,012	(3,174,012)	-
	31,584,070	(2,861,303)	28,722,767
Expenses:			
Program services:			
Head start programs	20,262,667	-	20,262,667
Community service programs	1,193,363	-	1,193,363
Energy assistance programs	3,637,821	-	3,637,821
Child feeding and nutrition programs	1,456,851	-	1,456,851
Home weatherization programs	283,446	-	283,446
Other programs	2,994,307	-	2,994,307
	29,828,455	-	29,828,455
Support services:			
General and administrative	1,886,955	-	1,886,955
	31,715,410	-	31,715,410
Change in net assets	(131,340)	(2,861,303)	(2,992,643)
Net assets at beginning of year	4,999,415	11,346,505	16,345,920
Net assets at end of year	$ 4,868,075	$ 8,485,202	$ 13,353,277

See notes to financial statements.

Jefferson County Committee for Economic Opportunity

Statement of Activities
Year Ended December 31, 2015

	Unrestricted	Temporarily Restricted	Total
Support and revenue:			
Government grants and contracts	$ 26,116,614	$ -	$ 26,116,614
Contributions	2,180,904	2,089,711	4,270,615
Program service fees	53,025	-	53,025
Interest income	232	-	232
Other revenue	27,358	-	27,358
	28,378,133	2,089,711	30,467,844
Net assets released from restrictions	2,122,677	(2,122,677)	-
	30,500,810	(32,966)	30,467,844
Expenses:			
Program services:			
Head start programs	18,632,271	-	18,632,271
Community service programs	1,010,518	-	1,010,518
Energy assistance programs	4,048,171	-	4,048,171
Child feeding and nutrition programs	1,278,241	-	1,278,241
Home weatherization programs	417,478	-	417,478
Other programs	3,058,210	-	3,058,210
	28,444,889	-	28,444,889
Support services:			
General and administrative	1,912,347	-	1,912,347
	30,357,236	-	30,357,236
Change in net assets	143,574	(32,966)	110,608
Net assets at beginning of year	4,855,841	11,379,471	16,235,312
Net assets at end of year	$ 4,999,415	$ 11,346,505	$ 16,345,920

See notes to financial statements.

Jefferson County Committee for Economic Opportunity

Statement of Functional Expenses
Year Ended December 31, 2016

	Program Services							Support Services	
	Head Start	Community Service	Energy Assistance	Child Feeding & Nutrition	Home Weatherization	Other	Total Program Services	General and Administrative	Total
Salaries and employee benefits	$ 11,610,664	$ 794,269	$ 144,181	$ -	$ 24,047	$ 2,190,880	$ 14,764,041	$ 1,095,961	$ 15,860,002
Program activities and services	560,667	30,162	3,389,723	1,280,358	252,732	516,736	6,030,378	37,442	6,067,820
Consultants	4,386	79,356	-	-	1,500	4,958	90,200	232,672	322,872
Depreciation	310,901	23,317	7,773	-	1,942	42,749	386,682	1,942	388,624
In-kind services	4,191,657	-	-	-	-	-	4,191,657	-	4,191,657
Insurance	28,146	8,901	-	-	1,605	1,310	39,962	225,132	265,094
Interest	45,073	529	4,422	-	-	-	50,024	-	50,024
Lease abandonment	997,055	-	-	-	-	-	997,055	-	997,055
Occupancy	756,168	34,637	49,203	-	-	1,711	841,719	21,001	862,720
Office expenses	118,400	25,014	6,496	-	14	14,547	164,471	24,066	188,537
Other	256,588	38,870	1,985	-	476	45,047	342,966	19,009	361,975
Repairs and maintenance	803,779	71,586	16,105	-	809	130,550	1,022,829	167,143	1,189,972
Supplies	194,756	20,834	5,146	176,493	-	11,597	408,826	10,588	419,414
Telephone	308,541	52,293	9,478	-	321	21,561	392,194	40,248	432,442
Travel	75,886	13,595	3,309	-	-	12,661	105,451	11,751	117,202
Total expenses before allocations	20,262,667	1,193,363	3,637,821	1,456,851	283,446	2,994,307	29,828,455	1,886,955	31,715,410
Allocations of indirect costs	1,513,777	75,847	-	-	-	11,400	1,601,024	(1,601,024)	-
Total expenses after allocations	$ 21,776,444	$ 1,269,210	$ 3,637,821	$ 1,456,851	$ 283,446	$ 3,005,707	$ 31,429,479	$ 285,931	$ 31,715,410

See notes to financial statements.

Jefferson County Committee for Economic Opportunity

Statement of Functional Expenses
Year Ended December 31, 2015

	Program Services							Support Services	
	Head Start	Community Service	Energy Assistance	Child Feeding & Nutrition	Home Weatherization	Other	Total Program Services	General and Administrative	Total
Salaries and employee benefits	$ 11,223,832	$ 709,113	$ 114,815	$ -	$ 42,156	$1,766,214	$ 13,856,130	$ 851,895	$ 14,708,025
Program activities and services	423,024	18,285	3,732,705	1,155,044	360,086	740,473	6,429,617	43,789	6,473,406
Consultants	154,240	1,969	-	-	6,879	145,036	308,124	282,232	590,356
Depreciation	290,767	21,010	6,612	-	1,087	39,476	358,952	1,103	360,055
In-kind services	4,139,377	-	-	-	-	-	4,139,377	-	4,139,377
Insurance	85,874	78,504	30	-	-	1,844	166,252	124,133	290,385
Interest	62,775	-	7,263	-	-	2,062	72,100	-	72,100
Occupancy	685,056	30,333	116,251	-	-	94,156	925,796	56,929	982,725
Office expenses	174,128	7,103	9,079	-	519	37,873	228,702	68,706	297,408
Other	121,106	37,997	1,437	-	1,776	39,605	201,921	299,523	501,444
Repairs and maintenance	695,207	73,443	17,252	660	4,083	85,650	876,295	88,237	964,532
Supplies	270,507	3,883	14,365	122,537	-	35,397	446,689	17,746	464,435
Telephone	225,136	17,183	24,976	-	162	28,813	296,270	52,979	349,249
Travel	81,242	11,695	3,386	-	730	41,611	138,664	25,075	163,739
Total expenses before allocations	18,632,271	1,010,518	4,048,171	1,278,241	417,478	3,058,210	28,444,889	1,912,347	30,357,236
Allocations of indirect costs	1,310,345	209,731	-	-	-	119,498	1,639,574	(1,639,574)	-
Total expenses after allocations	$ 19,942,616	$ 1,220,249	$ 4,048,171	$ 1,278,241	$ 417,478	$3,177,708	$ 30,084,463	$ 272,773	$ 30,357,236

See notes to financial statements.

Jefferson County Committee for Economic Opportunity

Statements of Cash Flows
Years Ended December 31, 2016 and 2015

	2016	2015
Cash flows from operating activities:		
Change in net assets	**$ (2,992,643)**	$ 110,608
Adjustments to reconcile change in net assets to net cash provided by (used in) operating activities:		
Donated facilities	**(2,024,700)**	(4,039,049)
Depreciation	**388,624**	360,055
In-kind services	**4,191,657**	4,139,377
Lease abandonment	**997,055**	-
Amortization of discount on unconditional promises to give	**(312,709)**	(75,362)
Realized and unrealized gain on investments	**(4,109)**	-
Loss (gain) on sale of property and equipment	**4,923**	(8,500)
Changes in assets and liabilities:		
Grants and contracts receivable	**1,487,816**	(765,578)
Prepaid expenses and other assets	**(82,907)**	1,314
Accounts payable	**(279,342)**	133,441
Accrued compensation	**488**	98,472
Deferred revenue	**458,325**	-
Net cash provided by (used in) operating activities	**1,832,478**	(45,222)
Cash flows from investing activities:		
Purchases of property and equipment	**(504,644)**	(113,142)
Proceeds from sale of property of equipment	**2,500**	8,500
Net cash used in investing activities	**(502,144)**	(104,642)
Cash flows from financing activities:		
Proceeds from long-term debt	**-**	31,756
Payments of long-term debt	**(166,196)**	(259,180)
Net cash used in financing activities	**(166,196)**	(227,424)
Net increase (decrease) in cash	**1,164,138**	(377,288)
Cash:		
Beginning of year	**695,524**	1,072,812
End of year	**$ 1,859,662**	$ 695,524
Supplemental disclosure of cash flow information:		
Cash paid during year for interest	**$ 50,024**	$ 72,100
Supplemental schedule of noncash finacing activity:		
Payoff of old long-term debt for new long-term debt	**$ -**	$ 1,480,244

See notes to financial statements.

Note 1. Nature of Organization and Significant Accounting Policies

Nature of organization: Jefferson County Committee for Economic Opportunity (the Agency) was organized and incorporated on January 15, 1965, under the Alabama Non-Profit Corporation Act of the State of Alabama in order to formulate a Community Action Program under the terms of the Economic Opportunity Act of 1964 and to help economically disadvantaged persons in urban and rural communities within Jefferson County, Alabama. The Agency administers several Federal and State funded grant programs for this purpose.

Basis of accounting: The financial statements of the Agency have been prepared on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America (GAAP). The Agency follows the standards of accounting and financial reporting for voluntary health and welfare organizations developed by the National Health Council, National Voluntary Health, and Social Welfare Organizations.

Basis of presentation: For financial statement presentation, the Agency has adopted Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) 958-205, Not-for-Profit Entities: Presentation of Financial Statements. Under FASB ASC 958-205, the Agency 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. In addition, the Agency is required to present a statement of cash flows. As permitted by FASB ASC 958-205, the Agency does not use fund accounting.

Revenue and recognition of donor restrictions: The Agency receives support from government grants and contracts, contributions and program service fees.

The Agency recognizes grant revenue as the expenses stipulated in the grant agreement have been incurred. Grant revenue on cost-reimbursement grants is recognized after the program expenditures have been incurred. As such, the Agency recognizes revenue and records a receivable for the reimbursement amount from the granting agency. Grant revenue received in advance of expenses incurred is recorded as deferred revenue. Such grant programs are subject to independent audit under the Office of Management and Budget Uniform Guidance and review by grantor agencies. Such review could result in disallowance of expenditures under the terms of the grant or reductions of future grant funds. Based on prior experience, the Agency's management believes the costs ultimately disallowed, if any, would not materially affect the financial statements.

The Agency also receives contributions or promises to give. A promise to give is a written or oral agreement to contribute cash or other assets to another entity. The Agency recognizes contributions or unconditional promises to give when received.

Program service fees are recognized when the services are performed by the Agency.

Support that is restricted by the donor is reported as an increase in unrestricted net assets if the restriction expires in the reporting period in which the support is recognized. All other donor-restricted support is reported as an increase in temporarily or permanently restricted net assets, depending on the nature of the restriction. When a restriction expires, temporarily restricted net assets are reclassified to unrestricted net assets. All other net assets, including board designated, are legally unrestricted, and are reported as part of the unrestricted class.

Contributions of donated non-cash assets are recorded at their fair values in the period received. Contributions of donated services that create or enhance nonfinancial assets or that require specialized skills are provided by individuals possessing those skills, and would typically need to be purchased if not provided by donation, are recorded at their fair values in the period received.

Note 1. Nature of Organization and Significant Accounting Policies (Continued)

Use of estimates: The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect certain reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the 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: For purposes of the statements of cash flows, the Agency considers all highly liquid investments available for current use with an initial maturity of three months or less to be cash equivalents. The Agency had no cash equivalents at December 31, 2016 and 2015.

Grants and contracts receivable: Grants and contracts receivable consist of amounts due to the Agency under federal, state and local grant and contract agreements. Management determines the allowance for doubtful grants and contracts receivable by regularly evaluating individual grants and contracts receivable and considering the history and likelihood of collection. Receivables are written off when deemed uncollectible. Recoveries of receivables previously written off are recorded when received. Management believes that all receivable amounts are expected to be collected.

Unconditional promises to give use of facilities: In accordance with FASB ASC 958-605, Not-for-Profit Entities: Revenue Recognition, if the free use of facilities is promised for several years, the Agency recognizes the contribution at fair value. The contribution is calculated at the net present value of the fair rental value of space occupied under similar conditions and is recorded as an increase in temporarily restricted net assets. The present value is reported as an asset that is amortized over the term of the promise. Each period, the value of using the space for the period is reported as an expense in the unrestricted net asset class along with a reclassification of net assets from temporarily restricted net assets. FASB ASC 958-605-55-24 notes that a contribution recorded for the free use of facilities cannot exceed the fair value of the asset being used.

Investments – restricted: In accordance with FASB ASC 958-320, Not-for-Profit Entities: Investments—Debt and Equity Securities, investments in equity securities with readily determinable fair values and all investments in debt securities are measured at fair market value in the accompanying statements of financial position. The unrealized gains are included in the change in unrestricted net assets in the accompanying statements of activities.

Property and equipment: Donations of 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, the Agency reports expirations of donor restrictions when the donated or acquired assets are placed in service as instructed by the donor. The Agency reclassifies temporarily restricted net assets to unrestricted net assets at that time.

All acquisitions of property and equipment in excess of $5,000 and all expenditures for repairs, maintenance, renewals, and betterments that materially prolong the useful lives of assets are capitalized. Property and equipment are stated at cost and are depreciated using the straight-line method. Depreciation expense for the years ended December 31, 2016 and 2015, was $388,624 and $360,055, respectively.

Note 1. Nature of Organization and Significant Accounting Policies (Continued)

The average lives used in computing depreciation are as follows:

	Years
Buildings	30
Leasehold improvements	10-30
Vehicles	5
Equipment	5-10

In accordance with FASB ASC 360-10-35, Impairment or Disposal of Long-Lived Assets, the Agency records impairment losses on long-lived assets used in operations when events and circumstances indicate that the assets might be impaired and the undiscounted cash flows estimated to be generated by those assets are less than the carrying amounts of those assets. If impairment exists, the amount of such impairment is calculated based on the estimated fair value of the asset. The Agency continually evaluates its investment in long-lived assets used in operations for impairment. Based on this evaluation, there was no impairment at December 31, 2016 or 2015.

Functional expenses: The costs of providing various programs and other activities have been summarized on a functional basis in the statements of activities and in the statements of functional expenses. Accordingly, certain costs have been allocated among the program services and supporting services benefited based on a percentage method.

Advertising costs: The Agency expenses advertising costs when incurred. Advertising expense was $10,210 and $3,719 for the years ended December 31, 2016 and 2015, respectively, and is included in office expenses on the accompanying statements of functional expenses.

Income taxes: The Agency is exempt from income taxes under Section 501(a) of the Internal Revenue Code (Code) as an organization described in 501(c)(3) and is not classified as a private agency. The Agency pays income taxes on gross income from any unrelated trade or business income less direct expenses. There was no income tax paid on such unrelated trade or business income for the years ended December 31, 2016 and 2015.

The Agency files a tax return in the United States (U.S.) federal jurisdiction. The Board of Directors evaluated the Agency's tax position and concluded that the Agency has not entered into any events or transactions that would disqualify its tax-exempt status or has not taken any uncertain tax positions that would cause the Agency to incur income taxes or penalties at the entity level. With few exceptions, the Agency is no longer subject to U.S. federal tax examinations by tax authorities for years before 2013.

Recent accounting pronouncements: In May 2014, the FASB issued Accounting Standards Update (ASU) 2014-09, *Revenue from Contracts with Customers (Topic 606)*, requiring an entity to recognize the amount of revenue to which it expects to be entitled for the transfer of promised goods or services to customers. The updated standard will replace most existing revenue recognition guidance in GAAP when it becomes effective and permits the use of either a full retrospective or retrospective with cumulative effect transition method. In August 2015, the FASB issued ASU 2015-14, which defers the effective date of ASU 2014-09 one year making it effective for annual reporting periods beginning after December 15, 2018. The Agency has not yet selected a transition method and is currently evaluating the effect that the standard will have on the financial statements.

Note 1. Nature of Organization and Significant Accounting Policies (Continued)

In February 2016, the FASB issued ASU 2016-02, *Leases (Topic 842)*. The guidance in this ASU supersedes the leasing guidance in Topic 840, *Leases*. Under the new guidance, lessees are required to recognize lease assets and lease liabilities on the balance sheet for all leases with terms longer than 12 months. Leases will be classified as either finance or operating, with classification affecting the pattern of expense recognition in the income statement. The new standard is effective for fiscal years beginning after December 15, 2019, including interim periods within those fiscal years. A modified retrospective transition approach is required for lessees for capital and operating leases existing at, or entered into after, the beginning of the earliest comparative period presented in the combined financial statements, with certain practical expedients available. The Agency is currently evaluating the future impact of this accounting update on the financial statements.

In August 2016, the FASB issued ASU 2016-14, *Not-for-Profit Entities (Topic 958): Presentation of Financial statements of Not-for-Profit Entities*, which addresses financial reporting for not-for-profit organizations. The key elements of the ASU are as follows:

- Net asset classifications are being reduced from three to two categories: with donor restrictions and without donor restrictions. Expanded disclosures about the nature and amount of any donor restrictions and on any board designations of net assets without donor restrictions will be required.
- The placed-in-service approach will be required for determining when restrictions are met for all capital gifts, eliminating the over-time option for expirations of capital restrictions.
- Additional disclosures, both qualitative and quantitative, will be required to communicate information useful in assessing liquidity within one year of the balance sheet date.
- The indirect or direct method of presenting the statement of cash flows will be allowed. However, the reconciliation of operating items no longer will be required when using the direct method.
- Several new reporting requirements related to expenses are included as follows:
  - Disclosure of expenses by both nature and function (excluding investment expenses that have been netted with investment return)
  - Disclosure of expenses netted with investment return
  - Enhanced disclosures regarding cost allocations.

ASU 2016-14 eliminates the requirement to disclose the unrealized gains and losses for the period related to equity securities held at the report date.

While the guidance is effective for fiscal years beginning after December 15, 2017, early adoption is allowed. The Agency is currently evaluating the effect the guidance will have on the financial statements.

In August 2016, the FASB issued ASU 2016-15, *Statement of Cash Flows (Topic 230): Classification of Certain Cash Receipts and Cash Payments*. ASU 2016-15 provides guidance on how certain cash receipts and cash payments should be presented and classified in the statement of cash flows with the objective of reducing existing diversity in practice with respect to these items. ASU 2016-15 will be effective for the Agency on January 1, 2019. Early adoption is permitted. ASU 2016-15 requires a retrospective transition method. However, if it is impracticable to apply the amendments retrospectively for some of the issues, the amendments for those issues would be applied prospectively as of the earliest date practicable. The Agency is currently evaluating the impact the adoption of this guidance will have on its statement of cash flows.

Note 1. Nature of Organization and Significant Accounting Policies (Continued)

In November 2016, the FASB issued ASU 2016-18, *Statement of Cash Flows (Topic 230): Restricted Cash (a consensus of the FASB Emerging Issues Task Force),* which provides guidance on the presentation of restricted cash or restricted cash equivalents in the statement of cash flows. ASU 2016-18 will be effective for the Agency beginning on January 1, 2019. The Agency had already been applying the amendments included in ASU 2016-18 to its financial statements for the years ended December 31, 2016 and 2015, therefore, there were no changes to previously issued financial statements.

Reclassifications: Certain reclassifications have been made in the previously reported financial statements to make prior year amounts comparable to those of the current year. Such reclassifications had no effect on previously reported net assets.

Subsequent events: Subsequent events have been evaluated through September 12, 2017, which is the date the financial statements were available for issuance.

Note 2. Fair Value Measurement

The Agency reports its fair value measures using a three-level hierarchy that prioritizes the inputs used to measure fair value. This hierarchy, established by GAAP, requires that entities maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. The three levels of inputs used to measure fair value are as follows:

Level 1: Quoted prices for identical assets or liabilities in active markets to which the Agency has access at the measurement date.

Level 2: Inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly or indirectly. Level 2 inputs include:

- Quoted prices for similar assets or liabilities in active markets
- Quoted prices for identical or similar assets in markets that are not active
- Observable inputs other than quoted prices for the asset or liability (for example, interest rates and yield curves)
- Inputs derived principally from, or corroborated by, observable market data by correlation

Level 3: Unobservable inputs for the asset or liability. Unobservable inputs should be used to measure the fair value to the extent that observable inputs are not available.

When available, the Agency measures fair value using Level 1 inputs because they generally provide the most reliable evidence of fair value.

The primary uses of fair value measures in the Agency's financial statements are recurring measurements of investments (Note 4).

Assets and liabilities measured at fair value are based on one or more of the three valuation techniques noted in the guidance. The three techniques are as follows:

Market approach: Prices and other relevant information generated by market transactions involving identical or comparable assets or liabilities.

Cost approach: Amount that would be required to replace the service capacity of an asset (i.e., replacement cost).

Note 2. Fair Value Measurement (Continued)

Income approach: Techniques to convert future amounts to a single present amount based on market expectations utilizing present value techniques.

On a recurring basis, the Agency is required to measure its money market funds and U.S. Government securities at fair value.

Following is a description of the valuation methodologies used for assets measured at fair value. There have been no changes in the valuation methodologies used during the years ended December 31, 2016 and 2015.

Money market funds**:** Valued at the carrying value as this amount approximates fair value due to the immediate or short-term maturity of the investment.

U.S. Government securities**:** Valued at the closing price reported on the active market on which the individual securities are traded.

The methods described above may produce a fair value calculation that may not be indicative of net realizable value or reflective of future fair values. Furthermore, while the Agency believes its valuation methodologies are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different fair value measurement at the reporting date.

The following table sets forth by level, within the fair value hierarchy, the Agency's assets that are measured at fair value on a recurring basis as of December 31:

	2016			
	Total	Level 1	Level 2	Level 3
Money market funds	$ 63,331	$ 63,331	$ -	$ -
U.S. Government securities	119,691	119,691	-	-
	$ 183,022	$ 183,022	$ -	$ -

	2015			
	Total	Level 1	Level 2	Level 3
Money market funds	$ 523	$ 523	$ -	$ -
U.S. Government securities	178,390	178,390	-	-
	$ 178,913	$ 178,913	$ -	$ -

To assess the appropriate classification of investments within the fair value hierarchy, the availability of market data is monitored. Changes in economic conditions or valuation techniques may require the transfer of investments from one fair value level to another. In such instances the transfer is reported at the beginning of the reporting period. There were no transfers between levels during the years ended December 31, 2016 and 2015.

Note 3. Unconditional Promises to Give Use of Facilities and Donated Facilities

The Agency has unconditional promises to give use of facilities for its Fairmont, Kingston, Sherman Heights, West Center Street, St. Joseph School, St. Francis Center, Festival Center and Erwin Head Start programs over a period of 10 to 25 years.

Note 3. Unconditional Promises to Give Use of Facilities and Donated Facilities (Continued)

During 2016, the Agency abandoned their Calloway facility due to environmental issues. Consequently, $997,055 of unconditional promises to give use of facilities was expensed and is included in lease abandonment on the statements of functional expenses (see Note 7).

At December 31, 2016 and 2015, the estimated fair market value of these unconditional promises to give is as follows:

	2016	2015
Temporarily restricted promises to give	$ 8,967,146	$ 12,203,300
Less discounts to present value (discounted at 4%)	(836,704)	(1,221,555)
	$ 8,130,442	$ 10,981,745

Contribution revenue recognized related to the long-term promises to give use of facilities was $312,709 and $2,089,711 for the years ended December 31, 2016 and 2015, respectively. The Agency also receives donated facilities on a month-to-month basis in carrying out its Head Start programs, which are recorded at their fair market value. Contribution revenue recognized related to month-to-month donated facilities was $2,024,700 for the years ended December 31, 2016 and 2015. The estimated fair market value of the donated facilities under long-term promises to give use of facilities and month-to-month donated facilities were $4,191,657 and $4,139,377 for the years ended December 31, 2016 and 2015, respectively, and are included in in-kind services in the accompanying statements of functional expenses.

Note 4. Investments – Restricted

The Agency's investments are restricted for the use of the Agency's scholarship fund, as further described in Note 7. At December 31, 2016 and 2015, the Agency's investments consisted of the following:

	2016	2015
Money market funds	$ 63,331	$ 523
U.S. Government securities	119,691	178,390
	$ 183,022	$ 178,913

Note 5. Property and Equipment

Property and equipment consist of the following:

	2016	2015
Buildings	$ 787,590	$ 790,000
Leasehold improvements	7,533,533	7,065,917
Vehicles	1,689,203	1,708,047
Equipment	737,287	707,848
Less accumulated depreciation	(5,903,038)	(5,535,834)
	$ 4,844,575	$ 4,735,978

Note 6. Long-Term Debt

During December 2015, the Agency completed a loan refinancing transaction, which consolidated multiple mortgages under one loan agreement. This note is collateralized by certain property. The note bears interest at a variable rate of LIBOR plus 3.0%, which was 3.65% and 3.5% at December 31, 2016 and 2015, respectively. Monthly payments, including interest and principal, are $18,117. The maturity date of this loan is December 9, 2023.

The loan contains a financial covenant requiring a minimum fixed charge coverage ratio. As of December 31, 2016, the Agency was not in compliance with this covenant, and the bank has waived such noncompliance.

Long-term debt consists of the following as of December 31, 2016 and 2015:

	2016	2015
Note payable	$ 1,345,804	$ 1,512,000
Less current portion	(173,087)	(167,142)
Long-term debt, less current portion	$ 1,172,717	$ 1,344,858

Maturities of long-term debt for years ending December 31 are as follows:

Years ending December 31:	
2017	$ 173,087
2018	179,243
2019	185,619
2020	192,220
2021	199,057
Thereafter	416,578
	$ 1,345,804

Note 7. Temporarily Restricted Net Assets

The Agency has established a scholarship fund for JCCEO Head Start-Early Head Start graduates. Beginning with the Head Start class of 1995, scholarships are available on a competitive basis when students who have graduated from JCCEO Head Start-Early Head Start complete high school and are accepted into college. Also included in temporarily restricted net assets is the fair market value of the unconditional promises to give use of facilities as described in Note 3.

Temporarily restricted net assets consist of the following as of December 31, 2016 and 2015:

	2016	2015
Scholarships	$ 354,760	$ 364,760
Unconditional promises to give use of facilities	8,130,442	10,981,745
	$ 8,485,202	$ 11,346,505

Note 7. Temporarily Restricted Net Assets (Continued)

Net assets were released from restrictions during the years ended December 31, 2016 and 2015 as follows:

	2016	2015
Scholarships awarded	$ 10,000	$ 8,000
Use of the donated facilities	2,166,957	2,114,677
Lease abandonment of donated facility	997,055	-
	$ 3,174,012	$ 2,122,677

Note 8. Matching of Federal Funds

Under certain federal programs, the Agency is required to match federal contributions with local funds, or service fee revenue. For the years ended December 31, 2016 and 2015, the Agency met all matching requirements and received matching resources in the following amounts:

2016 Head Start/Head Start Center of Excellence	04CH4788-02	$ 4,837,543
2015 Head Start/Head Start Center of Excellence	04CH3095-49	$ 4,731,189

Note 9. Retirement Plan

The Agency's employees participate in a 401(k) defined contribution retirement plan with an insurance company. The plan is available for all full-time employees after the completion of one year of continuous service. Employee contributions to the plan are matched by the Agency up to a maximum of 4% of their salary. The Agency's matching portion for the years ended December 31, 2016 and 2015, was $165,408 and $219,486, respectively.

Note 10. Lease Agreements

The Agency maintains equipment and occupies office space under long-term operating leases. Future minimum rental payments required under operating leases that have an initial or remaining noncancellable lease term in excess of one year, as of December 31, 2016, are as follows:

2017	$ 257,056
2018	217,485
2019	168,962
2020	167,839
2021	167,839
Thereafter	785,680
	$ 1,764,861

Rental expense associated with equipment and office space leases was $353,318 and $293,494 for the years ended December 31, 2016 and 2015, respectively, and is included in occupancy expenses on the statements of functional expenses.

Note 11. Risks and Uncertainties

The Agency maintains cash in bank accounts at high credit quality financial institutions. During 2016 and 2015, the Agency had cash on deposit with financial institutions in excess of depository insurance limits. The Agency has not experienced and does not anticipate any credit losses on the deposits.

The Agency invests in a professionally managed portfolio that contains U.S. Government securities and money market funds. Such investments are exposed to various risks such as interest rate, market, and credit. Due to the level of risk associated with such investments, and the level of uncertainty related to changes in the value of such investments, it is at least reasonably possible that changes in risks in the near term would materially affect investment balances and amounts reported in the financial statements.

Note 12. Contingencies

The Agency is a defendant in various legal actions arising from the normal course of its operations. While it is not possible to predict accurately or determine the eventual outcome of such actions, management believes that the outcome of these proceedings will not have a material adverse effect on the Agency's financial position, changes in net assets or cash flows.