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February 6, 2018

Board of Directors
Elkhart Child Development Center, Inc.
2121 Prairie St.
Elkhart, IN 46517

We have reviewed the report prepared by Elkhart Child Development Center, Inc. and opined upon by Cullar & Associates, PC, Independent Public Accountants, for the period January 1, 2016 to December 31, 2016. Per the *Independent Auditor's Report* the financial statements included in the report present fairly the financial condition of Elkhart Child Development Center, Inc. as of December 31, 2016 and the results of its operations for the period then ended, on the basis of accounting described in the report.

In our opinion, Cullar & Associates, PC prepared all required independent auditor's reports in accordance with generally accepted auditing standards and guidelines established by the State Board of Accounts.

The report is filed with this letter in our office as a matter of public record.

Paul D. Joyce
Paul D. Joyce, CPA
State Examiner

FINANCIAL REPORT

ELKHART CHILD DEVELOPMENT CENTER, INC.

December 31, 2016 and 2015

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INDEPENDENT AUDITOR'S REPORT

To the Board of Directors
Elkhart Child Development Center, Inc.
Elkhart, Indiana

We have audited the accompanying financial statements of Elkhart Child Development Center, Inc., 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 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. 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 Elkhart Child Development Center, Inc. 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 Matter - Supplementary Information

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The accompanying schedule of federal, state, and local awards, as required by *Uniform Compliance Guidelines for Examination of Entities Receiving Financial Assistance from Governmental Sources*, issued by the Indiana State Board of Accounts, is presented for purposes of additional analysis and is not a required part of the 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 financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other 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 financial statements as a whole.

Cullen & Associates, P.C.

South Bend, Indiana
August 23, 2017

ELKHART CHILD DEVELOPMENT CENTER, INC.

STATEMENTS OF FINANCIAL POSITION

December 31, 2016 and 2015

Assets:	<u>2016</u>	<u>2015</u>
Current Assets:		
Cash and cash equivalents	\$ 264,536	\$ 171,960
Accounts receivable (net of allowance for doubtful accounts of \$1,231 for both years)	2,267	2,645
Grants receivable	24,526	18,530
Prepaid expenses	1,006	1,006
<i>Total current assets</i>	<u>292,335</u>	<u>194,141</u>
 Non-Current Assets:		
Property and equipment	167,504	180,905
Beneficial interests in assets held by others	17,403	16,363
<i>Total non-current assets</i>	<u>184,907</u>	<u>197,268</u>
 <i>Total assets</i>	<u>\$ 477,242</u>	<u>\$ 391,409</u>
 Liabilities and Net Assets:		
Current Liabilities:		
Accounts payable and accrued liabilities	\$ 8,614	\$ 7,599
Deferred revenue	703	148
<i>Total liabilities</i>	<u>9,317</u>	<u>7,747</u>
 Net Assets, Unrestricted:		
General operating	450,522	367,299
Funds functioning as permanent endowment	17,403	16,363
<i>Total net assets, unrestricted</i>	<u>467,925</u>	<u>383,662</u>
 <i>Total liabilities and net assets</i>	<u>\$ 477,242</u>	<u>\$ 391,409</u>

The accompanying notes are an integral part of these financial statements.

ELKHART CHILD DEVELOPMENT CENTER, INC.

STATEMENTS OF ACTIVITIES

Years Ended December 31, 2016 and 2015

	<u>2016</u>	<u>2015</u>
Revenues, Gains, and Other Support:		
Grants	\$ 416,403	\$ 355,156
Fees	159,592	191,582
Contributions	1,201	1,315
Special events (net of direct expenses of of \$479 and \$1,239)	346	(298)
Investment income	99	61
Change in value of beneficial interest in assets held by others	1,040	(348)
Other	<u>69</u>	<u>1,568</u>
<i>Total revenues, gains, and other support</i>	<u>578,750</u>	<u>549,036</u>
 Expenses:		
Child development	421,428	430,639
Management and general	<u>73,059</u>	<u>71,678</u>
<i>Total expenses</i>	<u>494,487</u>	<u>502,317</u>
 Change in net assets, unrestricted	84,263	46,719
Net assets, unrestricted, beginning of year	<u>383,662</u>	<u>336,943</u>
<i>Net assets, unrestricted, end of year</i>	<u>\$ 467,925</u>	<u>\$ 383,662</u>

The accompanying notes are an integral part of these financial statements.

ELKHART CHILD DEVELOPMENT CENTER, INC.
STATEMENTS OF FUNCTIONAL EXPENSES
Years Ended December 31, 2016 and 2015

	2016			2015		
	<u>Child Development</u>	<u>Management and General</u>	<u>Totals</u>	<u>Child Development</u>	<u>Management and General</u>	<u>Totals</u>
Personnel	\$ 324,900	\$ 53,331	\$ 378,231	\$ 333,872	\$ 51,662	\$ 385,534
Insurance	7,608	671	8,279	7,071	623	7,694
Food	40,903	-	40,903	39,663	-	39,663
Food supplies	1,629	-	1,629	1,437	-	1,437
Teaching supplies	4,071	-	4,071	5,631	-	5,631
Education and training	1,006	-	1,006	1,010	-	1,010
Utilities	9,603	846	10,449	9,793	863	10,656
Repairs and maintenance	12,350	1,088	13,438	13,703	1,208	14,911
Depreciation	15,036	1,325	16,361	14,629	1,289	15,918
Trash removal	781	69	850	722	64	786
Snow removal	890	-	890	695	-	695
Dues and subscriptions	324	-	324	309	-	309
Office supplies	-	5,204	5,204	-	5,861	5,861
Payroll services	1,053	173	1,226	1,048	162	1,210
Professional fees	-	5,500	5,500	-	5,400	5,400
Transportation	86	-	86	35	-	35
Communications	-	1,962	1,962	-	1,625	1,625
Postage	-	204	204	-	241	241
Printing and promotion	-	2,403	2,403	-	2,553	2,553
Bad debts	-	195	195	-	-	-
Interest	-	1	1	-	18	18
Other	1,188	87	1,275	1,021	109	1,130
<i>Totals</i>	<u>\$ 421,428</u>	<u>\$ 73,059</u>	<u>\$ 494,487</u>	<u>\$ 430,639</u>	<u>\$ 71,678</u>	<u>\$ 502,317</u>

The accompanying notes are an integral part of these financial statements.

ELKHART CHILD DEVELOPMENT CENTER, INC.

STATEMENTS OF CASH FLOWS

Years Ended December 31, 2016 and 2015

	<u>2016</u>	<u>2015</u>
Cash Flows from Operating Activities:		
Change in net assets	\$ 84,263	\$ 46,719
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation	16,361	15,918
Bad debts	195	-
Decrease in accounts receivable	183	97
(Increase) in grants receivable	(5,996)	(2,977)
(Increase) decrease in beneficial interest in assets held by others	(1,040)	348
Increase in accounts payable and accrued liabilities	1,015	7,599
Increase (decrease) in deferred revenue	555	(230)
<i>Net cash provided by operating activities</i>	<u>95,536</u>	<u>67,474</u>
Cash Flows from Investing Activities:		
Purchase of property and equipment	<u>(2,960)</u>	<u>-</u>
Net change in cash and cash equivalents	92,576	67,474
Cash and cash equivalents, beginning of year	<u>171,960</u>	<u>104,486</u>
<i>Cash and cash equivalents, end of year</i>	<u>\$ 264,536</u>	<u>\$ 171,960</u>

The accompanying notes are an integral part of these financial statements.

ELKHART CHILD DEVELOPMENT CENTER, INC.

NOTES TO FINANCIAL STATEMENTS

December 31, 2016 and 2015

NOTE 1. NATURE OF ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES

Elkhart Child Development Center, Inc. (the “Organization”) is an Indiana nonprofit corporation organized to provide high quality comprehensive child care services primarily to children of lower-income families, while working to educate and strengthen the primary family unit. In order to fulfill its mission, the Organization provides an enriching educational environment that helps children to develop physically, emotionally, socially, and intellectually.

The Organization’s operations are supported primarily by service fees from individuals and grants from the State of Indiana.

Significant Accounting Policies:

Use of estimates:

The process of preparing financial statements in conformity with accounting principles generally accepted in the United States of America requires the use of estimates and assumptions regarding certain types of assets, liabilities, revenues, and expenses. Such estimates primarily relate to unsettled transactions and events as of the date of the financial statements. Accordingly, upon settlement, actual results may differ from estimated amounts. Significant estimates used in the accompanying financial statements include:

- Revenue earned from cost-reimbursement awards. The majority of the Organization’s revenue is earned on such awards from governmental agencies that are governed by federal and State cost principles and other administrative and programmatic regulations and are subject to audit by regulatory authorities. It is at least reasonably possible that revenue earned under such awards will be adjusted upon audit.
- The allowances for uncollectible accounts and grants receivable, which are based on factors discussed later in this note. It is at least reasonably possible that the net realizable value of the receivables will be less than their carrying value.
- The valuation of the beneficial interest in assets held by others, which is based on the value of the underlying assets, as provided by the Community Foundation that holds the assets and which approximates the present value of expected future distributions
- The allocations of costs between the program and supporting service. Expenses that are directly identifiable with functions are charged to those functions. Expenses related to more than one function are allocated to functions based on estimates of employee time spent on functions, space used by function, and other factors driving costs. In addition, because the Organization receives the majority of its support from grants and contracts awarded through competitive bidding, fund raising costs are not material and are not separately presented in the accompanying financial statements.

Net asset classes:

The Organization reports its activities and financial position by the following classes of

ELKHART CHILD DEVELOPMENT CENTER, INC.

NOTES TO FINANCIAL STATEMENTS

December 31, 2016 and 2015

net assets:

Unrestricted net assets are those currently available for use by the Organization.

Temporarily restricted net assets are those received with donor stipulations that limit the use of the donated assets. When stipulated time restrictions expire or purpose restrictions are accomplished, these net assets are reclassified to unrestricted net assets and reported in the statements of activities as net assets released from restrictions.

Cash and cash equivalents:

The Organization considers all time deposits, certificates of deposits, and highly liquid debt instruments with an original maturity of three months or less to be cash equivalents.

Accounts and grants receivable:

Accounts receivable for services and other activities are stated at the outstanding principal balance, net of any charge-offs and an allowance for uncollectibles. Grants receivable are stated at the outstanding principal balance, net of any discount for contributions expected to be collected in more than one year, and an allowance for uncollectibles.

The Organization provides allowances for doubtful accounts based upon the specific identification of receivables where collection is no longer deemed probable and an allowance based upon the level of receivable balances. In determining the allowances, management evaluates the payment history and other known information for individual accounts, historical losses, and current economic conditions. Individual accounts are charged-off against the allowance in the period that the receivable is deemed uncollectible. Recoveries of receivables previously charged-off are recorded as income in the period received. The Organization does not generally charge interest on its receivables.

Property and equipment:

Property and equipment is stated at cost if purchased, or at fair market value at the date of receipt if donated. Improvements and betterments are capitalized, while routine maintenance and repairs are charged to expense as incurred. When property and equipment is retired or otherwise disposed of, the cost and related accumulated depreciation are removed from the respective accounts and any gains or losses arising from the disposition are reported in the statement of activities. Depreciation is recorded by the straight-line method over the estimated useful lives of the assets, which are generally as follows:

Buildings - original purchase	40 years
Buildings - improvements	7 to 40 years
Land improvements	5 to 10 years
Equipment	3 to 10 years

ELKHART CHILD DEVELOPMENT CENTER, INC.

NOTES TO FINANCIAL STATEMENTS

December 31, 2016 and 2015

Beneficial interest in assets held by others:

The Organization recognizes its beneficial rights in assets held by others unless the donor has granted the recipient organization variance power. However, if the Organization is both the donor and the beneficiary of the assets, those rights are recognized even if the recipient organization has been granted variance power.

Beneficial interests in assets held by others are stated at fair value, based on the value of the underlying assets, as provided by the Community Foundation that holds them, and which approximates the present value of expected future distributions. Changes in the value of beneficial interests are included in revenues in the statements of activity.

Contributions and grants:

The Organization reports gifts and grants of cash and other assets as restricted support if they are received with donor stipulations that limit the use of the donated assets. When a donor restriction expires (that is, when a stipulated time restriction ends or purpose restriction is accomplished), temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statements of activities as net assets released from restrictions.

Unconditional promises to give that are expected to be collected within one year are recorded at net realizable value. Unconditional promises to give that are expected to be collected in future years are recorded at the present value of their estimated future cash flows. Amortization of the discounts is included in contributions revenue. Conditional promises to give are not recognized as revenue until the conditions are substantially met.

Revenues from governmental cost-reimbursement grants are recognized when costs allowable under the terms of the awards are incurred. Advances received in excess of allowable costs are reported as liabilities.

Contributed services are recognized if the services create or enhance nonfinancial assets or require specialized skills that are provided by individuals possessing those skills and would typically need to be purchased if not provided by donation. Such services are recorded at their estimated fair market value. No revenue from contributed services has been recognized in the accompanying financial statements.

Fees for service:

Fees for service are recognized as revenue when the services are substantially performed. Fees received in advance of substantial performance are reported as liabilities.

Advertising costs:

Advertising costs are charged to expense when incurred. Advertising costs were \$1,704 and \$2,154 for the years ended December 31, 2016 and 2015, respectively.

ELKHART CHILD DEVELOPMENT CENTER, INC.

NOTES TO FINANCIAL STATEMENTS

December 31, 2016 and 2015

Income taxes:

The Organization is tax-exempt under Section 501(c)(3) of the Internal Revenue Code and a similar section of the Indiana Code. Consequently, no provision is made for income taxes. The Organization is classified by the Internal Revenue Service as other than a private foundation under Internal Revenue Code Section 509(a)(1).

The Organization recognizes the tax benefit from an uncertain tax position only if it is more likely than not that the position will be sustained on examination by taxing authorities based on the technical merits of the position. The tax benefits recognized in the financial statements from such a position are measured based on the largest benefit that has a greater than 50% likelihood of being realized upon ultimate settlement. Examples of tax positions include the tax-exempt status of the Organization and positions related to the potential sources of unrelated business taxable income. Management has not identified any uncertain tax positions taken or expected to be taken in a tax return, and there are no unrecognized tax benefits recorded as liabilities in the accompanying financial statements. The Organization classifies interest and penalties, if any, associated with uncertain tax positions as a component of income tax expense. There was no accrued interest or any penalties related to unrecognized tax benefits at either December 31, 2016 or 2015, or any interest or penalties expense related to unrecognized tax benefits for the years then ended. The Organization is no longer subject to examination by the Internal Revenue Service or the State of Indiana for years prior to 2013.

NOTE 2. GRANTS RECEIVABLE

Grants receivable consist of reimbursements due under governmental awards. All amounts are due within one year, and no allowance for uncollectibles is considered necessary.

At December 31, 2016, the Organization had received approximately \$58,000 in conditional promises to give in excess of allowable costs incurred under cost-reimbursement grants. Such promises will be recognized as revenue if and when allowable costs are incurred.

NOTE 3. BENEFICIAL INTEREST IN ASSETS HELD BY OTHERS

The Organization is the beneficiary of a fund held by Elkhart County Community Foundation, Inc. ("Community Foundation"), to which both the Organization and others have donated. The Organization and the donors have granted Community Foundation variance power in the determination of annual distributions and transfer of the accounts to other community organizations in certain circumstances. Total accumulated contributions by the Organization to the fund were \$11,000, all of which were made before 2015. The value of the portion of the fund attributable to contributions by the Organization at December 31, 2016 and 2015 is \$17,403 and \$16,363, respectively, which is reported as beneficial interest in assets held by others in the accompanying statements of financial position. This same amount is also reported as funds functioning as permanent endowment in the unrestricted net assets section of those statements. The Organization received no distributions during the years ended December 31, 2016 and 2015 from the portion of the fund attributable to contributions by the Organization. The change in value of the portion of the fund attributable

ELKHART CHILD DEVELOPMENT CENTER, INC.

NOTES TO FINANCIAL STATEMENTS

December 31, 2016 and 2015

to the Organization's contributions of \$1,040 and (\$348), respectively, during the years ended December 31, 2016 and 2015 is included in revenues in the accompanying statements of activities.

The value of the portion of the fund attributable to contributions by others at December 31, 2016 and 2015 was \$18,557 and \$17,448, respectively, which is not reported an asset in the accompanying financial statements. No grants from the portion of the fund attributable to contributions by others were received during the years ended December 31, 2016 and 2015, respectively.

NOTE 4. PROPERTY AND EQUIPMENT

Property and equipment consists of the following at December 31, 2016 and 2015, respectively:

	<u>2016</u>	<u>2015</u>
Land	\$ 36,926	\$ 36,926
Building and improvements	487,969	487,969
Land improvements	25,471	25,471
Equipment	<u>119,379</u>	<u>116,419</u>
	669,745	666,785
Less accumulated depreciation	<u>(502,241)</u>	<u>(485,880)</u>
<i>Net property and equipment</i>	<u>\$ 167,504</u>	<u>\$ 180,905</u>

NOTE 5. DEBT INFORMATION

The Organization has a \$10,000 unsecured overdraft protection agreement with a bank. There were no borrowings under the agreement at either December 31, 2016 or 2015. The interest rate on the agreement was 13.0% and 12.75% at December 31, 2016 and 2015, respectively.

NOTE 6. NET ASSETS INFORMATION

Funds functioning as permanent endowment in the unrestricted net assets section of the statements of financial position represent the Organization's beneficial interest in assets held by Elkhart County Community Foundation, Inc. discussed in Note 3.

NOTE 7. RETIREMENT PLAN

The Organization participates in a defined-contribution SIMPLE retirement plan under Internal Revenue Code Section 408(p) that covers substantially all employees. Retirement expense was \$2,182 and \$2,831 for the years ended December 31, 2016 and 2015, respectively.

ELKHART CHILD DEVELOPMENT CENTER, INC.

NOTES TO FINANCIAL STATEMENTS

December 31, 2016 and 2015

NOTE 8. ENDOWMENT INFORMATION

As required by U.S. generally accepted accounting principles, net assets associated with endowment funds, including funds designated by the Board of Directors to function as endowments, are classified and reported based on the existence or absence of donor-imposed restrictions.

The State of Indiana enacted the *Uniform Prudent Management of Institutional Funds Act of 2006* (“UPMIFA”) effective July 1, 2007, the provisions of which apply to endowment funds existing on or established after that date. The Board of Directors and management have determined that certain net assets meet the definition of endowment funds under UPMIFA. These consist of the beneficial interest in assets held by the Community Foundation discussed in Note 3, which was funded by unrestricted net assets. The investment and spending policies for these funds are established by the Community Foundation’s governing body and are not under the control of the Organization.

Changes in the endowment for the years ended December 31, 2016 and 2015, respectively, are as follows:

	<u>2016</u>	<u>2015</u>
Balance, beginning of year	\$ 16,363	\$ 16,711
Change in value	<u>1,040</u>	<u>(348)</u>
<i>Balance, end of year</i>	<u>\$ 17,403</u>	<u>\$ 16,363</u>

NOTE 9. FAIR VALUE MEASUREMENTS

U.S. generally accepted accounting principles defines fair value as the price that would be received for an asset or paid to transfer a liability (an exit price) in an entity’s principal or most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date. Such principles establish a fair value hierarchy which requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. There are three levels of inputs that may be used to measure fair value:

- Level 1: Quoted prices (unadjusted) for identical assets or liabilities in active markets that the entity has the ability to access as of the measurement date.
- Level 2: Significant other observable inputs other than Level 1 prices such as quoted prices for similar assets or liabilities; quoted prices in markets that are not active; or other inputs that are observable or can be corroborated by observable market data.
- Level 3: Significant unobservable inputs that reflect a reporting entity’s own assumptions about the assumptions that market participants would use in pricing an asset or liability.

The fair value of assets measured on a recurring basis at December 31, 2016 and 2015, respectively, is as follows:

ELKHART CHILD DEVELOPMENT CENTER, INC.

NOTES TO FINANCIAL STATEMENTS

December 31, 2016 and 2015

	<u>Fair Value</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>
<i>For 2016:</i>				
Beneficial interest in assets held by others	\$ <u>17,403</u>	\$ <u>-</u>	\$ <u>-</u>	\$ <u>17,403</u>
<i>For 2015:</i>				
Beneficial interest in assets held by others	\$ <u>16,363</u>	\$ <u>-</u>	\$ <u>-</u>	\$ <u>16,363</u>

Fair value for the beneficial interest in assets held by others (the Community Foundation fund discussed in Note 3) is based on the fair value of the underlying assets, as provided by the Community Foundation, and which approximates the present value of expected future distributions.

The following is a reconciliation of beginning and ending balances of the fair value of assets measured by Level 3 inputs as of December 31, 2016 and 2015, respectively:

	<u>2016</u>	<u>2015</u>
Beneficial interest in assets held by others:		
Fair value beginning of year	\$ 16,363	\$ 16,711
Change in value	<u>1,040</u>	<u>(348)</u>
<i>Fair value end of year</i>	<u>\$ 17,403</u>	<u>\$ 16,363</u>

The change in value of the beneficial interest in assets held by others is reported as such in unrestricted net assets in the accompanying statements of activities, and is composed of investment gains and losses and undistributed earnings on investments held by Community Foundation.

NOTE 10. CONCENTRATIONS

The Organization's donors and activities are concentrated in Elkhart County, Indiana. Accordingly, its contributions and other sources of support and revenue may be affected by conditions in that area. In addition, for the years ended December 31, 2016 and 2015, approximately 67% and 60%, respectively, of total revenues were received from grants from the State of Indiana.

Financial instruments that expose the Organization to concentrations of credit risk consist primarily of cash and cash equivalents and grants receivable. The Organization has cash on deposit with financial institutions that, at times, may exceed the insurance limit of the Federal Deposit Insurance Corporation. At December 31, 2016 the Organization had deposits with a financial institution that exceeded the federal deposit insurance coverage by approximately \$13,000. At December 31, 2016 and 2015, approximately 91% and 89%, respectively, of grants receivable were due from the State of Indiana.

ELKHART CHILD DEVELOPMENT CENTER, INC.

NOTES TO FINANCIAL STATEMENTS

December 31, 2016 and 2015

NOTE 11. CASH FLOWS INFORMATION

For the years ended December 31, 2016 and 2015, the Organization paid interest of \$1 and \$18, respectively, and paid no income taxes in either year.

NOTE 12. SUBSEQUENT EVENTS

The date through which events occurring subsequent to December 31, 2016 have been evaluated for possible adjustment to the financial statements or disclosure is August 23, 2017, the date on which the financial statements were available to be issued. Management identified no such events.

ELKHART CHILD DEVELOPMENT CENTER, INC. INC.
SCHEDULE OF FEDERAL, STATE, AND LOCAL AWARDS
Year Ended December 31, 2016

Grantor/Pass-Through Grantor/ Program/Title	Identifying Number	Beginning Balance	Award Received	Award Expended	Ending Balance
FEDERAL AWARDS					
U.S. Department of Agriculture:					
Passed-Through Indiana Department of Education:					
Child and Adult Care Food Program	1200037	\$ 57,086	\$ -	\$ 57,086	\$ -
Child and Adult Care Food Program	1200037	-	74,000	16,309	57,691
U.S. Department of Health and Human Services:					
Passed-through Indiana Housing and Community Development Authority and REAL Services of St. Joseph County, Inc.					
Community Services Block Grant	16-7-E-3	-	27,000	27,000	-
Passed-through State of Indiana Family and Social Services Administration:					
Child Care and Development Fund - Contract	N/A	45,697	-	45,697	-
Child Care and Development Fund - Vouchers	N/A	-	269,311	269,311	-
<i>Total federal, state, and local awards</i>		<u>\$ 102,783</u>	<u>\$ 370,311</u>	<u>\$ 415,403</u>	<u>\$ 57,691</u>

ELKHART CHILD DEVELOPMENT CENTER, INC.

ADDITIONAL 2016 AUDIT COMMUNICATIONS



This communication was prepared as part our audit of the Organization's 2016 financial statements. It is intended solely for the information and use of those charged with governance and, where appropriate, management and is not intended for, and should not be used by, anyone other than these specified parties.

 **CULLAR & ASSOCIATES, PC**
CERTIFIED PUBLIC ACCOUNTANTS

To the Board of Directors
Elkhart Child Development Center, Inc.
Elkhart, Indiana

We have audited the financial statements of Elkhart Child Development Center, Inc. (the “Organization”) as of and for the year ended December 31, 2016 and have issued our report dated August 23, 2017. As part of our audit, we are also required to communicate certain matters to you that are, in our professional judgment, significant and relevant to your responsibilities in overseeing the financial reporting process. This communication provides you with that information and it also provides you with a summary of the Organization’s financial report.

Our communication is organized as follows-

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We hope you find this communication useful. Please feel free to contact us if you have any questions or need additional information.

This communication is intended solely for the information and use of those charged with governance (the Board of Directors and Audit Committee, or their equivalents), and, where appropriate, management. Consequently, it is not intended for, and should not be used by, anyone other than these specified parties.

Cullar & Associates, P.C.

South Bend, Indiana
August 23, 2017

SUMMARY

OVERVIEW

- 2016 operating results were very strong, with a surplus of approximately \$84,000.
- The Organization has approximately 7 months of expenses in working capital.
- We proposed three material audit adjustments and have two internal control findings.

FINANCIAL REPORT



Pages 1-2 - Independent Auditor's Report

Our report on the financial statements is an unmodified or “clean” opinion – we believe the statements are fairly presented in accordance with U.S. generally accepted accounting principles. We also believe that the supplementary schedule of federal, state, and local awards is fairly presented

Page 3 - Statements of Financial Position

These statements report the Organization's assets, liabilities, and net assets at December 31, 2016 and 2015. As such, it's a snap-shot of the Organization's finances on those dates.

- Working capital (current assets, less current liabilities) at December 31, 2016 is approximately \$283,000, up from \$186,000 a year before, and represents approximately 209 days in expenses.
- Total net assets (assets minus liabilities) are \$467,925. Of this, about \$168,000 is invested property and equipment and \$17,000 is at the Community Foundation.

Pages 4 and 5 - Statements of Activities and Functional Expenses

These statements report the Organization's revenues and expenses for the last two years.

- Total 2016 revenues of \$578,750 were up \$30,000, or 5.4%, from 2015, mainly due to increased grants (Child Care & Development Fund vouchers).
- Total 2016 expenses of \$494,487 were down about \$8,000, or 1.6%, from 2015, mainly due to a decrease in personnel of \$7,300.
- The net result is a positive change in net assets (i.e., a surplus) in 2016 of \$84,263, compared to a surplus of \$46,719 in 2015.
- The ratio of program expenses to total expenses was 85.2% for 2016, compared to 85.7% for 2015.

Page 6 - Statements of Cash Flows



These statements report the Organization's cash flows. Operations provided \$95,536 of cash in 2016, while investing activities used \$2,960 of cash, and for a net increase in cash of \$92,576.

Pages 7-14 - Notes to Financial Statements

The notes explain the Organization's significant accounting policies and provide additional detail about its financial statements.

- Note 1 discusses significant estimates used in the financial statements and discusses the accounting policies for net asset classes, the beneficial interests in assets held by others, and contributions and grants. It also provides information about the Organization's income tax status.

- Note 3 provides information of the Organization's Community Foundations fund, part of which is on the books as an asset, and part of which is not.
- Note 10 provides information about concentrations.

Page 15 – Schedule of Federal, State, and Local Awards

The Indiana State Board of Accounts now requires this schedule to report state and local awards.

COMMUNICATION OF AUDIT MATTERS

Professional standards require that we provide you with information about our responsibilities under generally accepted auditing standards, as well as certain information related to the planned scope and timing of our audit. We communicated such matters to you in our letter of engagement dated January 31, 2017. Professional standards require that we also communicate to you the following information related to our audit.

SIGNIFICANT ACCOUNTING POLICIES AND ESTIMATES

Management is responsible for the selection and use of appropriate accounting policies. The Organization's significant accounting policies are described in Note 1 to financial statements. In our opinion, those policies are appropriate, comply with U.S. generally accepted accounting principles ("GAAP") and industry practices, were consistently applied, and are adequately described in Note 1 to financial statements. No new accounting policies were adopted, and the application of existing policies was not changed, during the year except for the prior period adjustments discussed below.

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected.

The following describes the significant accounting estimates affecting the Organization's financial statements, the process used by management in determining those estimates, and the primary basis for our conclusions regarding the reasonableness of those estimates-

Significant Estimate	Process Used by Management	Basis for Our Conclusions
Revenue earned from cost-reimbursement awards, which are governed by administrative and programmatic regulations and are subject to audit by regulatory authorities.	Management monitors its compliance with programmatic regulations.	We reviewed and tested individual transactions submitted for reimbursement under such awards.
The allowances for uncollectible accounts and grants receivable.	Management determines the allowance based on the payment history and other known information for individual accounts, historical losses, and current economic conditions,	We reviewed collections subsequent to year-end and other related records.
The valuation of beneficial interest in assets held by the Community Foundation.	Valuation is based on the value of the underlying assets, as provided by the Community Foundation that hold the assets and which approximates the present value of expected future distributions.	We traced the values to statements provided by the Community Foundation and computed the estimated present values.

<p>Allocation of expenses among the program and supporting services.</p>	<p>Expenses that are directly identifiable with functions are charged to those functions. Expenses related to more than one function are allocated to functions based on estimates of employee time spent on functions, space used by function, and other factors driving costs.</p>	<p>We reviewed the underlying assumptions used in determining these estimates. We also made inquiries of personnel and traced directly identifiable costs to cost centers.</p>
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QUALITY OF THE ORGANIZATION’S FINANCIAL REPORTING

We believe that the presentation of the financial statements, including their overall neutrality, consistency, and clarity of the disclosures, are appropriate and in conformity with GAAP. We considered the form, arrangement, and content of the financial statements and notes, including such matters as the terminology, amount of detail, classification, and the basis of amounts reported.

We noted no transactions entered into by the Organization during the year for which there is a lack of authoritative guidance or consensus. All significant transactions have been recognized in the financial statements in the proper period.

There were no significant alternative accounting treatments or controversial or emerging areas that affected the financial statements. Also, there were no situations involving the adoption of, or a change in, accounting principles where the application of alternative GAAP, including alternatives of applying an accounting principle, would have a material effect on the Organization’s financial statements.

The financial statement disclosures are neutral, consistent, and clear.

CORRECTED AND UNCORRECTED MISSTATEMENTS

Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are clearly trivial, and communicate them to the appropriate level of management.

The following material misstatements detected as a result of audit procedures were corrected by management:

- Understatement of both grants receivable and revenues by approximately \$11,200.
- Understatement of property and equipment, and overstatement of expenses, by approximately \$3,000.
- Understatement of depreciation expense by approximately \$16,400.

Management has determined that the effects of the following uncorrected misstatements detected as a result of our audit procedures are immaterial, both individually and in the aggregate, to the financial statements as a whole:

- Understatement of accounts payable and payroll liabilities by approximately \$2,400.
- Understatement of prepaid insurance by approximately \$1,300.

DIFFICULTIES ENCOUNTERED IN PERFORMING THE AUDIT

We encountered no significant difficulties in dealing with management in performing and completing our audit.

DISAGREEMENTS WITH MANAGEMENT

For purposes of this letter, professional standards define a disagreement with management as a financial accounting, reporting, or auditing matter, whether or not resolved to our satisfaction, that could be significant to the financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of our audit.

MANAGEMENT REPRESENTATIONS

We have requested certain representations from management that are included in the management representation letter dated August 23, 2017.

MANAGEMENT CONSULTATIONS WITH OTHER INDEPENDENT ACCOUNTANTS

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the Organization's financial statements or a determination of the type of auditor's opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

OTHER AUDIT FINDINGS OR ISSUES

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the Organization's auditor. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

NEW ACCOUNTING PRONOUNCEMENTS

The following is a list of significant recent accounting pronouncements that may affect the Organization's future financial reporting.

- Accounting Standards Update ("ASU") 2016-14, *Not-for-Profit Entities*, will be effective for your 2018 fiscal year. It changes nonprofit financial reporting to require-
 - Reporting balances and operating results by two net asset classes (net assets without donor restrictions, and net assets with donor restrictions) instead of the current three classes.
 - Enhanced disclosures regarding governing board designations of resources; the composition of donor restricted net assets; management of liquidity; the method to allocate costs by function; and "under-water" endowment funds.

The biggest effect of this pronouncement on the Organization's financial statements will likely be the need to provide additional disclosures on how the Organization manages its liquid resources to meet cash needs and quantitative disclosures about the availability of financial assets to meet such needs.

We have sent more detailed information and examples to management about this new standard, along with suggestions to prepare for its implementation.

- ASU 2014-09, *Revenue from Contracts with Customers*, will be effective for your 2019 fiscal year. The standard requires a five-step process to determine when revenues from contracts are to be recognized and increases related disclosures. It does not apply to contributions, but it will apply to other sources of the Organization's revenues. FASB has a task force that is currently developing nonprofit implementation guidance for this standard, and we will let management know what that guidance says.
- ASU 2016-02, *Leases*, will be effective for your 2020 fiscal year. It will require all leases with more than a one-year term to be recorded as both an asset and a liability. If the Organization signs a multi-year lease for facilities or office equipment, this standard may have a material impact on its statement of financial position.
- ASU 2016-13, *Financial Instruments – Credit Losses*, will be effective for your 2021 fiscal year. It changes the current model of recognizing credit losses when *incurred* to a model of recognizing losses when *expected*, which will cause such losses to be recognized earlier. It applies to receivables from revenue transactions but not to promises to give to nonprofit entities. Given the nature of your receivables, this standard will probably have little, if any, effect on your accounting.

REPORT ON INTERNAL CONTROL

In planning and performing our audit, we considered the Organization's internal control over financial reporting ("internal control") as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Organization's internal control. Accordingly, we do not express an opinion on the effectiveness of the Organization's internal control.

Our consideration of internal control was for the limited purpose described in the first paragraph and was not designed to identify all deficiencies in internal control that might be significant deficiencies or material weaknesses and therefore there can be no assurance that all such deficiencies have been identified. However, as discussed below, we identified certain deficiencies in internal control that we consider to be material weaknesses.

LIMITATIONS OF INTERNAL CONTROL

Internal control over financial reporting cannot provide absolute assurance of achieving financial reporting objectives because of its inherent limitations. Internal control over financial reporting is a process that involves human diligence and compliance and is subject to lapses in judgment and breakdowns resulting from human failures. Internal control over financial reporting also can be circumvented by collusion or improper management override. Because of such limitations, there is a risk that material misstatements may not be prevented or detected on a timely basis by internal control over financial reporting. However, these inherent limitations are known features of the financial reporting process. Therefore, it is possible to design into the process safeguards to reduce, though not eliminate, this risk.

DEFINITIONS

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. *A material weakness* is a deficiency, or combination of deficiencies in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. *A significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

MATERIAL WEAKNESSES

Accounting Issues and Expertise in Preparation of Financial Statements

As part of our audit, we proposed material audit adjustments and drafted the Organization's financial statements and related notes, which were reviewed and approved by management. This service is necessary, in our opinion, because management would be unable to completely prepare financial statements and related disclosures in accordance with U.S. generally accepted accounting principles because of limited resources (i.e., time and accounting reporting services). Although this service has historically been part of the audit function for smaller entities, professional standards require that we communicate this to you because, as the independent auditor, we are not considered to be part of the Organization's internal control.

This is a repeat finding from 2015.

Inadequate Segregation of Duties over Cash Receipts

One individual collects cash payments, issues receipts, and posts the collections to the *EZcare* software. This is an inadequate segregation of duties over cash receipts. Good internal controls require a segregation of duties such that no one has access to both assets and the related accounting records or is able to perpetrate and conceal a fraud.

We recommend that two employees be present when cash payments are received, and that they prepare a cash receipts log and sign and date it. Another individual should later compare this log to deposits on the bank statements.

This is a repeat finding from 2015.