

Child Care Associates

FINANCIAL STATEMENTS

For the Year Ended December 31, 2016



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RIGGS &
INGRAM

CPAs and Advisors

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**Child Care Associates
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December 31, 2016**

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INDEPENDENT AUDITORS' REPORT

Board of Directors
Child Care Associates
Fort Worth, Texas

Report on the Financial Statements

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

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America 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 auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinion

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

Other Matters

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The accompanying schedule of expenditures of federal and state awards and the summary schedules of prior audit findings are presented for purposes of additional analysis as required by Title 2 U.S. Code of Federal Regulations (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* and the State of Texas Single Audit Circular and are 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.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated August 17, 2017, on our consideration of CCA'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 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 CCA's internal control over financial reporting and compliance.

Prior Period Financial Statements

The financial statements of CCA as of December 31, 2015 were audited by other auditors whose report dated September 29, 2016, expressed an unmodified opinion on those statements, the summarized comparative information presented herein presented as of and for the year ended December 31, 2015, is consistent in all material respects, with the audited financial statements from which it has been derived.

Carr, Riggs & Ingram, L.L.C.

CARR, RIGGS & INGRAM, L.L.C.
Certified Public Accountants

Enterprise, Alabama
August 17, 2017

**Child Care Associates
Statements of Financial Position**

| <i>December 31,</i> | 2016 | 2015 |
|---|---------------------|---------------------|
| Assets | | |
| Cash | \$ 1,744,800 | \$ 700,571 |
| Grants receivable | 1,275,233 | 2,314,039 |
| Other receivables | 229,422 | 2,304 |
| Prepaid expenses | 50,771 | 88,539 |
| Property and equipment, net | 5,168,545 | 5,975,812 |
| Total assets | \$ 8,468,771 | \$ 9,081,265 |
| Liabilities and Net Assets | | |
| Liabilities | | |
| Accounts payable | \$ 575,081 | \$ 1,538,387 |
| Accrued salaries and benefits | 548,807 | 266,777 |
| Note payable | 372,776 | 470,263 |
| Due to grantor | 2,279,201 | 2,279,201 |
| Total liabilities | 3,775,865 | 4,554,628 |
| Net assets | | |
| Unrestricted | 4,692,906 | 4,526,637 |
| Total liabilities and net assets | \$ 8,468,771 | \$ 9,081,265 |

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

Child Care Associates Statements of Activities

| <i>For the years ended December 31,</i> | 2016 | 2015 |
|--|---------------------|---------------|
| Unrestricted Net Assets | | |
| Revenues and gains | | |
| Grant income | \$ 65,532,232 | \$ 63,485,011 |
| Misc Income | 26,922 | 127,349 |
| Local monies | 79,040 | 110,257 |
| Program service fees | 129,318 | 235,016 |
| Gain (loss) on disposal of assets, net | 79,182 | (93,087) |
| Interest income | - | 958 |
| In-kind | 4,246,890 | 5,041,035 |
| | 70,093,584 | 68,906,539 |
| Expenses | | |
| Program services | | |
| Early Education Program Support | 300,781 | 479,380 |
| Special Nutrition | 1,184,984 | 1,294,435 |
| Head Start/Early Head Start | 24,836,592 | 24,994,068 |
| Texas School Ready | 176,322 | 166,571 |
| Child Care Management Services | | |
| Tarrant County | 35,719,551 | 33,231,202 |
| West Central Texas | 5,180,453 | 5,437,186 |
| North Texas Community Foundation | 7,911 | - |
| Support services | | |
| General and administration | 2,520,721 | 4,804,553 |
| | 69,927,315 | 70,407,395 |
| Net increase (decrease) in unrestricted net assets | 166,269 | (1,500,856) |
| Net Assets, beginning | 4,526,637 | 6,027,493 |
| Net Assets, ending | \$ 4,692,906 | \$ 4,526,637 |

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

Child Care Associates Statements of Cash Flows

| <i>For the years ended December 31,</i> | 2016 | 2015 |
|---|---------------------|-------------------|
| Cash Flow From Operating Activities | | |
| Net increase (decrease) in net assets | \$ 166,269 | \$ (1,500,856) |
| Adjustments to reconcile increase (decrease) in net assets to cash provided by operations | | |
| Depreciation and amortization | 420,910 | 534,794 |
| Loss (gain) on disposal of assets | (79,182) | 93,087 |
| (Increase) decrease in operating assets | | |
| Grants receivable | 1,038,806 | 590,592 |
| Other receivables | (227,118) | - |
| Prepaid expenses | 37,768 | 298,941 |
| Increase (decrease) in operating liabilities | | |
| Accounts payable | (963,306) | (168,448) |
| Accrued salaries and benefits | 282,030 | (1,458,572) |
| Due to grantor | - | 2,279,201 |
| Net cash provided by operating activities | 676,177 | 668,739 |
| Cash Flows From Investing Activities | | |
| Proceeds from sale of assets | 535,590 | 128,281 |
| Purchases of property and equipment | (70,051) | (396,488) |
| Net cash provided by (used in) investing activities | 465,539 | (268,207) |
| Cash Flows From Financing Activities | | |
| Payments on notes payable | (97,487) | (92,808) |
| Net increase in cash | 1,044,229 | 307,724 |
| Cash and Cash Equivalents - beginning | 700,571 | 392,847 |
| Cash and Cash Equivalents - ending | \$ 1,744,800 | \$ 700,571 |
| Supplemental Disclose of Cash Flow Information | | |
| Interest Paid | \$ 21,595 | \$ 26,273 |

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

Child Care Associates

Statements of Functional Expenses for the Year December 31, 2016
(with summarized financial information for the year ended December 31, 2015)

| | Early Education Program Services | Special Nutrition | Head Start/ Early Head Start | Texas School Ready |
|--|--|----------------------|------------------------------------|--------------------------|
| Salary and fringe benefits | \$ 183,793 | \$ 505,138 | \$ 12,132,069 | \$ 125,261 |
| Employee health benefits | 25,977 | 160,781 | 2,681,005 | 17,040 |
| Payroll taxes and other fringe | 22,457 | 104,322 | 1,581,998 | 14,943 |
| Professional fees | 8,801 | 1,091 | 3,404,457 | (90) |
| Educational supplies | 8,779 | - | 417,365 | - |
| Food | 111 | 247,439 | 446,244 | - |
| Household supplies | 1,251 | 164,737 | 104,561 | - |
| Office supplies | 952 | - | 136,062 | 1,424 |
| Other supplies | 10,484 | - | 597,064 | 522 |
| Telephone | 1,284 | 591 | 149,597 | 3,731 |
| Postage | 18 | - | 2,338 | - |
| Occupancy | 14,329 | - | 2,230,969 | 7,427 |
| Rental and maintenance of equipment | 4,085 | - | 51,543 | - |
| Travel | 2,931 | 297 | 80,803 | 5,786 |
| Conferences, conventions and meetings | - | - | 94,392 | - |
| Broker day home payments | - | - | - | - |
| Insurance | - | - | 77,389 | - |
| Miscellaneous | 11,951 | 351 | 367,836 | 63 |
| Printing | 104 | - | 11,342 | 206 |
| Community relations and public contributions | 99 | 237 | - | 9 |
| Grant disallowance | - | - | - | - |
| Interest expense | - | - | - | - |
| Total expenses before depreciation and amortization | 297,406 | 1,184,984 | 24,567,034 | 176,322 |
| Depreciation and amortization | 3,375 | - | 269,558 | - |
| Total expenses | \$ 300,781 | \$ 1,184,984 | \$ 24,836,592 | \$ 176,322 |

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

| Child Care Management Services | | | | | | | Total | Total |
|--------------------------------|---------------------|-----------------|----------------------|----------------------------|----------------------|----------------------|-------|-------|
| Tarrant County | West Central Texas | Other Programs | Program Services | General and Administration | Total 2016 | Total 2015 | | |
| \$ 1,635,323 | \$ 445,841 | \$ - | \$ 15,027,425 | \$ 1,255,245 | \$ 16,282,670 | \$ 16,353,111 | | |
| 261,078 | 79,880 | - | 3,225,761 | 125,722 | 3,351,483 | 3,472,489 | | |
| 206,287 | 58,436 | - | 1,988,443 | 166,015 | 2,154,458 | 1,851,026 | | |
| 433,818 | 1,478 | 3,500 | 3,853,055 | 305,299 | 4,158,354 | 4,316,310 | | |
| - | - | - | 426,144 | 1,713 | 427,857 | 259,683 | | |
| 1,205 | - | - | 694,999 | 119 | 695,118 | 664,222 | | |
| 1,482 | - | - | 272,031 | 1,784 | 273,815 | 224,403 | | |
| 32,779 | - | - | 171,217 | 21,539 | 192,756 | 639,855 | | |
| 460,524 | 38 | - | 1,068,632 | 182,591 | 1,251,223 | 563,613 | | |
| 28,731 | 1,316 | - | 185,250 | 24,031 | 209,281 | 146,884 | | |
| 80,452 | - | - | 82,808 | 12,403 | 95,211 | 69,531 | | |
| 170,804 | - | - | 2,423,529 | 79,447 | 2,502,976 | 2,448,996 | | |
| 45,038 | - | - | 100,666 | 23,075 | 123,741 | 274,441 | | |
| 19,256 | 12,918 | - | 121,991 | 7,205 | 129,196 | 143,302 | | |
| 999 | 1,788 | 72 | 97,251 | 27,173 | 124,424 | 61,890 | | |
| 32,309,431 | 4,576,696 | - | 36,886,127 | - | 36,886,127 | 34,831,564 | | |
| 3,688 | 1,558 | - | 82,635 | 63,830 | 146,465 | 146,909 | | |
| 736 | 160 | 2,553 | 383,650 | 68,254 | 451,904 | 1,059,127 | | |
| 7,284 | - | 1,786 | 20,722 | 4,940 | 25,662 | 26,897 | | |
| - | 24 | - | 369 | 1,720 | 2,089 | 12,874 | | |
| - | - | - | - | - | - | 2,279,201 | | |
| - | - | - | - | 21,595 | 21,595 | 26,273 | | |
| 35,698,915 | 5,180,133 | 7,911 | 67,112,705 | 2,393,700 | 69,506,405 | 69,872,601 | | |
| 20,636 | 320 | - | 293,889 | 127,021 | 420,910 | 534,794 | | |
| <u>\$ 35,719,551</u> | <u>\$ 5,180,453</u> | <u>\$ 7,911</u> | <u>\$ 67,406,594</u> | <u>\$ 2,520,721</u> | <u>\$ 69,927,315</u> | <u>\$ 70,407,395</u> | | |

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Organization

Child Care Associates (“CCA”) is a multi-funded, private, not-for-profit organization that provides comprehensive childcare and development services in North Texas. CCA mission is to assist family successes through excellence in comprehensive early education and development services.

Basis of Presentation

The financial statements of CCA have been prepared on the accrual basis of accounting. Liquidity is presented on the statements of financial position through the sequencing of assets according to their nearness of conversion to cash and sequencing liabilities according to their nearness of their maturity and resulting use of cash.

Financial Statement Presentation

CCA’s financial statements are presented in accordance with FASB ASC 958-205, 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, as defined below:

Unrestricted – These are net assets that are not subject to donor-imposed stipulations.

Temporarily Restricted – These are net assets that are subject to donor-imposed stipulations that may or will be met, either by actions of CCA and/or the passage of time. When a restriction expires, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets released from restrictions. CCA had no temporarily restricted net assets as of December 31, 2016 and 2015.

Permanently Restricted – These are net assets that are required to be maintained in perpetuity with only the income to be used for CCA’s activities due to donor-imposed restrictions. CCA had no permanently restricted net assets as of December 31, 2016 and 2015.

In addition, CCA is also required by FASB ASC 958-205 to present a statement of cash flows.

Tax Exempt Status

CCA has been granted an exemption from income taxes under Internal Revenue Code Section 501(c)(3) as a non-profit corporation. As required by Internal Revenue Service regulations, CCA annually files Form 990, "Return of Agency Exempt from Income Tax" with the Internal Revenue Service.

CCA’s policy is to record interest and penalties related to taxes in interest expense on the financial statements; however, CCA did not have any interest or penalties related to taxes in fiscal year 2016.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

CCA applies the accounting guidance for uncertainty in income taxes using the provisions of FASB ASC 740, *Income Taxes*. Using that guidance, tax positions initially need to be recognized in the financial statements when it is more likely than not the position will be sustained upon examination by the tax authorities. Such tax positions initially and subsequently need to be measured as the largest amount of tax benefit that has a greater than 50% likelihood of being realized upon ultimate settlement with the tax authority assuming full knowledge of the position and relevant facts. CCA believes that it has appropriate support for the income tax positions taken and to be taken on its tax returns and that its accruals for tax liabilities are adequate for all open tax years (after 2012 for federal and state) based on an assessment of many factors including experience and interpretations of tax laws applied to the facts of each matter. CCA has concluded that there are no significant uncertain tax positions requiring disclosure, and there are no material amounts of unrecognized tax benefits as of December 31, 2016.

Cash and Cash Equivalents

For purposes of the statement of cash flows, CCA considers all unrestricted highly liquid investments with an initial maturity of three months or less to be cash equivalents.

Grants and Other Receivable

Grants and other receivable represent pending reimbursements of program expenses incurred as of December 31, 2016 and 2015, both billed and unbilled, and expected to be received from the funding sources in the subsequent year. Management considers receivables at December 31, 2016 and 2015 to be fully collectible. Accordingly, no allowance for delinquent grants receivable was made in the accompanying financial statements.

Property and Equipment

It is CCA's policy to capitalize all expenditures for property and equipment costing in excess of \$5,000 and having a useful life of one year or more. Donations of land, buildings, and equipment are similarly capitalized and recorded as support at their fair rental value. Such donations are reported as unrestricted support unless explicit donor stipulations specify how the assets must be used. Gifts of long-lived assets with explicit restrictions that specify how the assets are to be used and gifts of cash and other assets that must be used to acquire long-lived assets are reported as restricted support.

Absent explicit donor stipulations about how long those long-lived assets must be maintained, CCA reports expirations of donor restrictions when the donated or acquired long-lived assets are placed in service. Depreciation using the straight-line method is provided over the estimated useful lives of the assets. Estimated lives of major property categories are as follows:

| | |
|------------------------|--|
| Buildings | 10-50 Years |
| Equipment | 3-5 Years |
| Leasehold improvements | Shorter of useful life of the asset or life of the lease |

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Contributions

In accordance with FASB ASC 958-605, Revenue Recognition, contributions received are recorded as unrestricted, temporarily restricted, or permanently restricted support depending on the existence and/or nature of any donor restrictions. Contributions that are restricted by the donor are reported as increases in unrestricted net assets if the restrictions expire in the fiscal year in which the contributions are recognized. All other donor-restricted contributions are reported as increases in temporarily or permanently restricted net assets depending on the nature of the restrictions. Temporarily restricted net assets are reclassified to unrestricted net assets upon satisfaction of the time or purpose restrictions. There were no donor-restricted net assets at December 31, 2016 and 2015.

Long-lived assets acquired with gifts of cash restricted for those acquisitions are reported as unrestricted or as temporarily restricted depending on whether there is an explicit, donor-imposed time requirement as to how long the assets must be maintained. Long-lived assets are reported as permanently restricted only if CCA must maintain the assets in perpetuity or if the donor explicitly restricted the proceeds from any future disposition of the assets to reinvestment in long-lived assets.

Donated Services, Materials and Facilities

In accordance with FASB ASC 958-605, Revenue Recognition, CCA recognizes donated services as contributions in the financial statements if such services (a) create or enhance nonfinancial assets or (b) require specialized skills, are performed by people with those skills, and would otherwise be purchased by CCA. Donated services, materials and facilities are recorded at their estimated fair values.

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 programs and supporting services benefited in accordance with CCA's cost allocation plan. General and administrative expenses include those expenses that provide for the overall support and direction of CCA.

Grant and Contract Support

CCA recognizes support from the Local Workforce Development Boards, under a direct reimbursement contract, as services are provided. CCA recognizes support from the U.S. Department of Health and Human Services and from the U.S. Department of Agriculture in accordance with the conditions specified by their individual grant and contract provisions. A receivable is recognized to the extent costs have been incurred and not reimbursed under such grants and contracts. Revenue is deferred when funds are received in advance of costs being incurred.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

CCA participates in numerous federal and state grant programs that are governed by various rules and regulations of the grantor agencies. Costs charged to the respective grant programs are subject to audit and adjustment by the grantor agencies; therefore, to the extent that CCA has not complied with the rules and regulations governing the grants, refunds of any money received may be required and the collectability of any related receivable at December 31, 2016, may be impaired. In the opinion of management, there are no significant contingent liabilities relating to compliance with the rules and regulations governing the respective grants that are considered to be probable and can be reasonably estimated; therefore, no provision has been recorded in the accompanying financial statements for such contingencies. Differences between the estimated amounts accrued and interim and final settlements are reported in the year of settlement.

The funding for CCA's operations is significantly dependent on the receipt of federal and state grants. For the years ended December 31, 2016 and 2015, approximately 76% and 82%, respectively, of CCA's total revenues and other support was derived from the U.S. Department of Health and Human Services (inclusive of amounts received from pass-through entities). It is always considered reasonably possible that a customer, grantor, or contributor will be lost in the near term.

Management Estimates and Assumptions

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Advertising

Advertising costs are expensed as incurred.

Subsequent Events

Management has evaluated subsequent events through August 17, 2017, the date of issuance of these financial statements and has determined that no events occurring subsequent to year end warranted disclosure.

Reclassifications

Certain accounts in the prior-year financial statements have been reclassified for comparative purposes to conform with the presentation in the current-year financial statements.

**Child Care Associates
Notes to Financial Statements**

NOTE 2 - CONCENTRATION OF CREDIT RISK

Financial instruments which potentially subject CCA to concentrations of credit risk consist principally of cash and receivables.

As of December 31, 2016, deposits in financial institutions totaled \$2,198,367, which exceeded the collateral thereon and the amounts insured by the Federal Deposit Insurance Corporation (FDIC) and Securities Investors Protection Corporation (SIPC) by \$1,398,438. CCA's deposits have exceeded collateralized and insured amounts at other various times during the year as well; however, CCA monitors credit worthiness of each financial institution with which it conducts business and has not experienced any losses in its accounts. CCA believes it is not exposed to any significant risk on cash.

Credit risk with respect to receivables is limited because the amounts are receivable from state and local governmental agencies. CCA believes it is not exposed to any significant risk on receivables.

NOTE 3 - GRANTS RECEIVABLE

Grants receivable consists of the following:

| <i>December 31,</i> | 2016 | 2015 |
|--|---------------------|---------------------|
| U.S. Department of Health and Human Services | | |
| Head Start | \$ 712,992 | \$ 895,068 |
| Child Care Management System Program | 437,980 | 1,291,185 |
| U.S. Department of Agriculture | | |
| Child and Adult Care Food Program | 97,868 | 93,194 |
| Texas School Readiness Program | 26,393 | 34,592 |
| Total | \$ 1,275,233 | \$ 2,314,039 |

NOTE 4 - OTHER RECEIVABLES

Other receivables consisted of the following

| <i>December 31,</i> | 2016 | 2015 |
|-------------------------------|-------------|----------|
| Miscellaneous funding sources | \$ 229,442 | \$ 2,304 |

Child Care Associates
Notes to Financial Statements

NOTE 5 – PROPERTY AND EQUIPMENT

Property and equipment consists of the following:

| <i>December 31,</i> | 2016 | 2015 |
|---------------------------------------|---------------------|---------------------|
| Land | \$ 1,022,527 | \$ 1,022,527 |
| Buildings | 5,580,551 | 6,567,794 |
| Equipment | 4,394,030 | 4,366,998 |
| Construction in process | 43,018 | - |
| Leasehold improvements | 4,008,584 | 4,055,273 |
| Total property and equipment, at cost | 15,048,710 | 16,012,592 |
| Less: accumulated depreciation | (9,880,165) | (10,036,780) |
| Net book value | \$ 5,168,545 | \$ 5,975,812 |

Depreciation expense for the years ended December 31, 2016 and 2015 was \$420,910 and \$534,794, respectively.

NOTE 6 – ACCRUED LIABILITIES

Accrued liabilities consist of the following:

| <i>December 31,</i> | 2016 | 2015 |
|--|-------------------|-------------------|
| Accrued salaries, payroll taxes and related fringe | \$ 525,115 | \$ 266,777 |
| Accrued vacation leave | 23,692 | - |
| Total | \$ 548,807 | \$ 266,777 |

NOTE 7 – NOTE PAYABLE

Note payable consists of the following:

| <i>December 31,</i> | 2016 | 2015 |
|--|-------------------|-------------------|
| Note payable to a bank, due in monthly payments of \$9,923 and bearing interest at 4.99% through June 2020, secured by corporate offices land and buildings. | \$ 372,776 | \$ 470,263 |

The principal amounts of note payable maturing December 31, is as follows:

| | |
|------|-------------------|
| 2017 | \$ 103,372 |
| 2018 | 108,105 |
| 2019 | 113,625 |
| 2020 | 47,674 |
| | \$ 372,776 |

**Child Care Associates
Notes to Financial Statements**

NOTE 8 – DUE TO GRANTOR

Due to grantor represents an amount owed back to the U.S. Department of Health and Human Services for disallowed costs. The disallowed funds are a result of CCA not properly allocating joint costs and indirect program costs to its Head Start and Early Head Start programs during a prior period.

Due to grantor consists of the following:

| <i>December 31,</i> | 2016 | 2015 |
|---|---------------------|--------------|
| Due to grantor payable is due to U.S. Department of Health and Human Services in monthly installments of \$11,000 bearing interest at 1.00% annually, maturing February 2036. | \$ 2,279,201 | \$ 2,279,201 |

The principal amounts of note payable maturing subsequent to December 31, 2016 is as follows:

| | |
|------------|---------------------|
| 2017 | \$ 110,000 |
| 2018 | 132,000 |
| 2019 | 132,000 |
| 2020 | 132,000 |
| 2021 | 132,000 |
| Thereafter | 1,641,201 |
| | \$ 2,279,201 |

NOTE 9 – RETIREMENT PLAN

CCA has a defined contribution retirement plan which covers substantially all employees. Contributions are based on a percent of each covered employee's salary and total \$613,684 and \$608,531 for 2016 and 2015, respectively.

NOTE 10 – DONATED SERVICES, MATERIALS, AND FACILITIES

Significant services, materials, and facilities are donated to CCA by various individuals and organizations as part of its Head Start program. Donated materials and facilities were recorded at fair market value at the date of donation, and have been included in revenue and expenses for the year. Donated professional services are valued based on the fair market value of the services donated. Donated non-professional services have not been recognized in the Statement of Activities in accordance with FASB ASC 958-605. The non-professional services reported below are based on time sheets maintained on the volunteers, using reasonable rates.

Child Care Associates
Notes to Financial Statements

NOTE 10 – DONATED SERVICES, MATERIALS, AND FACILITIES (Continued)

Donated materials, facilities, and services are as follows:

| <i>For the year ended December 31,</i> | Head Start | Child Care | Corporate Services | 2016 | 2015 |
|--|-----------------------|-----------------------|-------------------------------|---------------------|---------------------|
| Program supplies | \$ 225,939 | \$ 64 | \$ 244 | \$ 226,247 | \$ 79,974 |
| Professional services | 2,917,414 | 20 | 15,345 | 2,932,779 | 3,781,079 |
| Facilities | 1,087,864 | - | - | 1,087,864 | 1,179,982 |
| In-kind contributions reflected in statements of activities | 4,231,217 | 84 | 15,589 | 4,246,890 | 5,041,035 |
| Nonprofessional services | 464,491 | 7,406 | 13,500 | 485,397 | 133,153 |
| Total in-kind contributions | \$ 4,695,708 | \$ 7,490 | \$ 29,089 | \$ 4,732,287 | \$ 5,174,188 |

NOTE 11 - CONTINGENT LIABILITIES

Amounts received or receivable from grantor agencies are subject to audit and adjustment by grantor agencies, principally the federal government and state grantors. Any disallowed claims, including amounts already collected, may constitute a liability of the applicable funds. The amount, if any, of expenditures which may be disallowed by the grantor cannot be determined at this time, although CCA expects such amounts, if any, to be immaterial.

NOTE 12 – RISK MANAGEMENT

CCA is exposed to various risks of loss related to torts, theft of, damage to, or destruction of assets, errors and omissions, injuries to employees, employee's health insurance and life, and natural disasters. CCA manages these risks of loss through the purchase of various insurance policies.

NOTE 13 – OPERATING LEASES

Operating lease agreements are generally for periods of up to five years. However, certain of the lease agreements allow for termination of the lease prior to completion of the lease term in the event that a federal agency declines to provide continued funding of CCA's programs. A schedule of future minimum rental payments by year required under operating leases that have remaining lease terms in excess of one year is as follows:

| <i>Year ending December 31,</i> | |
|--|---------------------|
| 2017 | \$ 553,014 |
| 2018 | 428,976 |
| 2019 | 270,833 |
| 2020 | 125,900 |
| 2021 | 26,960 |
| Thereafter | 2,058 |
| Total minimum payments required | \$ 1,407,741 |

Rent expense for the year ended December 31, 2016 and 2015 totaled \$522,943 and \$686,479, respectively.

Child Care Associates
Schedule of Expenditures of Federal and State Awards
For the Year Ended December 31, 2016

| Grantor/Pass-through Grantor/ Program Title | Federal CFDA Number | Agency or Pass-through Number | Expenditures |
|--|---------------------------|-------------------------------------|----------------------|
| U.S. Department of Health and Human Services | | | |
| Direct Award: | | | |
| Head Start | 93.600 | 06CH10093-02-00 | \$ 19,103,321 |
| Head Start | 93.600 | 06CH10093-03-00 | 3,382,393 |
| | | | 22,485,714 |
| Pass-through from West Central Texas Workforce Development Board | | | |
| Child Care Management Services | | | |
| Child Care and Development Fund Cluster | | | |
| West Central Texas CCPO Master Contract #20097234 | | | |
| Child Care Mandatory and Matching Funds of the | | | |
| Child Care and Development Fund* | 93.596 | CCS2016 | 1,302,372 |
| Child Care and Development Block Grant* | 93.575 | CCS2016 | 2,733,223 |
| | | | 4,035,595 |
| Social Services Block Grant | 93.667 | CCS2016 | 20,314 |
| Pass-through from Tarrant County Workforce Development Board | | | |
| Child Care Management Services | | | |
| Child Care and Development Fund Cluster | | | |
| Tarrant County CCMS Master Contract #20097221 | | | |
| Child Care Mandatory and Matching Funds of the | | | |
| Child Care and Development Fund* | 93.596 | 03090Y00 | 12,362,898 |
| Child Care and Development Block Grant* | 93.575 | 03090Y00 | 14,352,858 |
| | | | 26,715,756 |
| Social Services Block Grant | 93.667 | CCS2016 | 121,783 |
| Total U.S. Department of Health and Human Services | | | 53,379,162 |
| U. S. Department of Agriculture | | | |
| Pass-through from Texas Department of Agriculture | | | |
| Child and Adult Care Food Program | 10.558 | 02048 | 1,271,861 |
| Total Expenditures of Federal Awards | | | \$ 54,651,023 |

* Child Care and Development Fund Cluster

See the accompanying notes to the schedule of expenditures of federal and state awards.

Child Care Associates
Schedule of Expenditures of Federal and State Awards (Continued)
For the Year Ended December 31, 2016

| Grantor/Pass-through Grantor/ Program Title | Agency or Pass-through Number | Expenditures |
|--|-------------------------------------|----------------------|
| Texas Department of Family and Protective Services | | |
| Pass-through from West Central Texas Workforce Development Board | | |
| Child Care Management Services | | |
| West Central Texas CCPO Master Contract #20097234 | | |
| State General Revenue | CCS2016 | \$ 1,191,897 |
| Pass-through from Tarrant County Workforce Development Board | | |
| Child Care Management Services | | |
| Tarrant County CCMS Master Contract #20097221 | | |
| State General Revenue | 03090Y00 | 8,993,844 |
| Total Expenditures of State Awards | | \$ 10,185,741 |

See the accompanying notes to the schedule of expenditures of federal and state awards.

Notes to Schedule of Expenditures of Federal and State Awards**NOTE 1 – BASIS OF PRESENTATION**

The accompanying Schedule of Expenditures of Federal and State Awards (the “Schedule”) summarizes the federal and state expenditures of CCA under programs of the federal government and state of Texas for the year ended December 31, 2016. The amounts reported as federal and state grant expenditures were obtained from CCA’s general ledger. Because the Schedule presents only a selected portion of the operations of CCA, it is not intended to and does not present the financial position, changes in net assets and cash flows of CCA.

For purposes of the Schedule, federal and state awards include all grants, contracts, and similar agreements entered into directly with the federal government, State of Texas, and other pass-through entities. Payments received for goods or services provided as a vendor do not constitute federal awards for purposes of the Schedule. CCA has obtained Catalog of Federal Domestic Assistance (CFDA) numbers to ensure that all programs have been identified in the Schedule.

Clusters

Federal programs with different CFDA numbers that are closely related because they share common compliance requirements are defined as a cluster by the Uniform Guidance. Child Care and Development Block Grant (CFDA 93.575) and Child Care Mandatory and Matching Funds of the Child Care and Development Fund (CFDA 93.667) are reported as clusters in the Schedule.

NOTE 2 – BASIS OF ACCOUNTING

This Schedule was prepared on the modified accrual basis of accounting. The modified accrual basis differs from the full accrual basis of accounting in that expenditures for property and equipment are expensed when incurred, rather than being capitalized and depreciated over their useful lives, and expenditures for the principal portion of debt service are expensed when incurred, rather than being applied to reduce the outstanding principal portion of debt, which conforms to the basis of reporting to grantors for reimbursement under the terms of the CCA’s federal and state grants.

NOTE 3 – RELATIONSHIP OF THE SCHEDULE TO PROGRAM FINANCIAL REPORTS

The amounts reflected in the financial reports submitted to the awarding federal, state and/or pass-through agencies and the Schedule may differ. Some of the factors that may account for any difference include the following:

- CCA’s fiscal year end may differ from the program’s year end.
- Accruals recognized in the Schedule, because of year end procedures, may not be reported in the program financial reports until the next program reporting period.
- Fixed asset purchases and the resultant depreciation charges are recognized as fixed assets in CCA’s financial statements and as expenditures in the program financial reports and the Schedule.



Child Care Associates
Notes to Schedule of Expenditures of Federal and State Awards

NOTE 4 – FEDERAL PASS-THROUGH FUNDS

CCA is also the sub-recipient of federal funds that have been subjected to testing and are reported as expenditures and listed as federal pass-through funds. Federal awards other than those indicated as pass-through funds are considered to be direct.

NOTE 5 – CONTINGENCIES

Grant monies received and disbursed by CCA are for specific purposes and are subject to review by the grantor agencies. Such audits may result in requests for reimbursement due to disallowed expenditures. Management does not believe that such disallowance, if any, would have a material effect on the financial position of CCA. Except for the item discussed in Note 8 to the financial statements, there were no material questioned or disallowed costs as a result of grant audits in process or completed.

NOTE 6 – NONCASH ASSISTANCE

CCA did not receive any federal noncash assistance for the fiscal year ending December 31, 2016.

NOTE 7 – INDIRECT COST RATE

The accompanying Schedule includes indirect costs charged utilizing CCA's authorized federal indirect cost rate of 12.05%. Due to this, CCA did not elect to use the 10% de minimis indirect cost rate as allowed under the Uniform Guidance.

**INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL OVER
FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS
BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN
ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS***

Board of Directors
Child Care Associates
Fort Worth, Texas

We have audited, in accordance with the 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, the financial statements of Child Care Associates (a nonprofit organization), ("CCA"), which comprise the statement of financial position as of December 31, 2016, and the related statements of activities, functional expenses and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated August 17, 2017.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered CCA's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of CCA's internal control. Accordingly, we do not express an opinion on the effectiveness of CCA's internal control.

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 a 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.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether CCA's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of CCA's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering CCA's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Carr, Riggs & Ingram, L.L.C.

CARR, RIGGS & INGRAM, L.L.C.

Certified Public Accountants

Enterprise, Alabama
August 17, 2017

INDEPENDENT AUDITORS' REPORT ON COMPLIANCE FOR EACH MAJOR PROGRAM AND REPORT ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY THE UNIFORM GUIDANCE AND STATE OF TEXAS SINGLE AUDIT CIRCULAR

Board of Directors
Child Care Associates
Fort Worth, Texas

Report on Compliance for Each Major Federal and State Program

We have audited Child Care Associates (“CCA”) compliance with the types of compliance requirements described in the *OMB Compliance Supplement* and State of Texas Single Audit Circular that could have a direct and material effect on each of CCA’s major federal and state programs for the year ended December 31, 2016. CCA’s major federal and state programs are identified in the summary of auditor’s results section of the accompanying schedule of findings and questioned costs.

Management’s Responsibility

Management is responsible for compliance with federal and state statutes, regulations, and the terms and conditions of its federal and state awards applicable to its federal and state programs.

Auditors’ Responsibility

Our responsibility is to express an opinion on compliance for each of CCA’s major federal and state programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; the audit requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance) and State of Texas Single Audit Circular. Those standards, the Uniform Guidance and State of Texas Single Audit Circular require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal or state program occurred. An audit includes examining, on a test basis, evidence about CCA’s compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal and state program. However, our audit does not provide a legal determination of CCA’s compliance.

Opinion on Each Major Federal and State Program

In our opinion, CCA complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal and state programs for the year ended December 31, 2016.

Report on Internal Control Over Compliance

Management of CCA is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered CCA's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal and state program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal and state program and to test and report on internal control over compliance in accordance with the Uniform Guidance and State of Texas Single Audit Circular, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of CCA's internal control over compliance.

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

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider material weaknesses. However, material weaknesses may exist that have not been identified.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the Uniform Guidance and State of Texas Single Audit Circular. Accordingly, this report is not suitable for any other purpose.

Carr, Riggs & Ingram, L.L.C.

CARR, RIGGS & INGRAM, L.L.C.
Certified Public Accountants
Enterprise, Alabama
August 17, 2017

Child Care Associates
Schedule of Findings and Questioned Costs
For the Year Ended December 31, 2016

Section I – Summary of Auditors’ Results

Financial Statements

Type of auditor’s report issued: Unmodified

Internal control over financial reporting:

- Material weakness(es) identified _____ yes X no
- Significant deficiency(ies) identified that are not considered to be material weaknesses? _____ yes X none reported
- Noncompliance material to financial statements noted? _____ yes X no

Federal Awards

Internal control over major programs:

- Material weakness(es) identified? _____ yes X no
- Significant deficiency(ies) identified that are not considered to be material weakness(es)? _____ yes X none reported

Type of auditor’s report issued on compliance for major Federal programs: Unmodified

Any audit findings disclosed that are required to be reported in accordance with Uniform Guidance 2 CFR Part 200.516(a)? _____ yes X no

State Awards

Internal control over major projects:

- Material weakness(es) identified? _____ yes X no
- Significant deficiency(ies) identified that are not considered to be material weakness(es)? _____ yes X none reported

Type of auditor’s report issued on compliance for major State projects: Unmodified

Any audit findings disclosed that are required to be reported in accordance State of Texas Single Audit Circular Sec. __.510? _____ yes X no

Identification of major programs:

| CFDA Number(s) | Name of Federal Program |
|-----------------------|---|
| 93.600 | <u>Federal Program</u> Head Start |
| N/A | <u>State Program</u> Child Care Management Services |

**Child Care Associates
Schedule of Findings and Questioned Costs
For the Year Ended December 31, 2016**

| | Federal Programs | State Programs |
|---|---------------------|-------------------|
| Dollar threshold used to distinguish between type A and type B programs/projects? | \$ 1,639,531 | \$ 305,572 |
| Auditee qualified as low-risk auditee? | <u> X </u> yes | <u> </u> no |

Section II – Financial Statement Findings

No such findings noted.

Section III – Federal Award Findings and Questioned Costs

No such findings noted.

Section IV – State Award Findings and Questioned Costs

No such findings noted.



**Child Care Associates
Summary Schedule of Prior Audit Findings for Federal Awards
For the Year Ended December 31, 2016**

Federal Award Findings and Questioned Costs – Prior Year

Finding 2015-01 Corrected



**Child Care Associates
Summary Schedule of Prior Audit Findings for State Awards
For the Year Ended December 31, 2016**

State Financial Assistance Findings and Questioned Costs – Prior Year

There were no audit findings for the fiscal year ending December 31, 2015.