EARLY LEARNING INDIANA

DAY EARLY LEARNING • CHILD CARE ANSWERS

EARLY LEARNING INDIANA, INC.

FINANCIAL STATEMENTS

AND

SUPPLEMENTARY INFORMATION

DECEMBER 31, 2019 AND 2018

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EARLY LEARNING INDIANA, INC.

TABLE OF CONTENTS
DECEMBER 31, 2019 AND 2018

Page

Report of Independent Auditors 1

Financial Statements

Statements of Financial Position 3

Statements of Activities 4

Statements of Functional Expenses 6

Statements of Cash Flows 8

Notes to Financial Statements 9

Additional Reports and Information Required Under Single Audit Act

Report of Independent Auditors 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* 31

Report of Independent Auditors on Compliance for Each Major Program and on Internal Control Over Compliance Required by the Uniform Guidance 33

Schedule of Findings and Questioned Costs 35

Summary Schedule of Prior Audit Findings 37

Supplementary Information

Schedule of Expenditures of Federal Awards 39

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REPORT OF INDEPENDENT AUDITORS

Board of Directors
Early Learning Indiana, Inc.
Indianapolis, Indiana

We have audited the accompanying financial statements of Early Learning Indiana, Inc. (ELI), a not-for-profit organization, which comprise the statements of financial position as of December 31, 2019 and 2018, and the related statements of activities, functional expenses, and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

REPORT OF INDEPENDENT AUDITORS
(Continued)

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 ELI as of December 31, 2019 and 2018, 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.

Change in Accounting Principles

As discussed in Note 3 to the financial statements, effective January 1, 2019, ELI adopted Financial Accounting Standards Board (FASB) Accounting Standards Update (ASU) No. 2014-09, *Revenue from Contracts with Customers (Topic 606)*, and ASU No. 2018-08, *Clarifying the Scope and Accounting Guidance for Contributions Received and Contributions Made (Topic 958)*. Our opinion is not modified with respect to this 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 expenditures of federal awards, 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*, 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 2019 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 June 22, 2020 on our consideration of ELI'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 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 ELI's internal control over financial reporting and compliance.

Blue & Co., LLC

Carmel, Indiana
June 22, 2020

EARLY LEARNING INDIANA, INC.

STATEMENTS OF FINANCIAL POSITION
DECEMBER 31, 2019 AND 2018

ASSETS

	2019	2018
Cash	$ 14,014,331	$ 1,100,812
Investments	2,392,839	6,799,191
Accounts receivable, net	1,702,345	856,236
Contributions receivable, net	745,671	460,349
Prepaid expenses	2,185,967	1,407,198
Property and equipment, net	3,595,657	3,630,254
Endowment investments	15,557,302	14,019,207
Beneficial interests in assets held by others	163,049	150,727
	$ 40,357,161	$ 28,423,974

LIABILITIES AND NET ASSETS

	2019	2018
Liabilities		
Accounts payable	$ 1,366,572	$ 468,653
Accrued expenses	848,545	889,756
Total liabilities	2,215,117	1,358,409
Net assets		
Without donor restrictions		
Undesignated	6,052,787	5,073,726
Board designated - endowment	4,741,200	4,168,872
	10,793,987	9,242,598
With donor restrictions		
Purpose restricted	16,184,399	7,650,534
Time restricted for future periods	184,507	171,371
Endowment	10,979,151	10,001,062
	27,348,057	17,822,967
Total net assets	38,142,044	27,065,565
	$ 40,357,161	$ 28,423,974

See accompanying notes to financial statements.

EARLY LEARNING INDIANA, INC.

STATEMENT OF ACTIVITIES
YEAR ENDED DECEMBER 31, 2019
(With Comparative Total for the Year Ended December 31, 2018)

	2019			2018
	Without Donor Restrictions	With Donor Restrictions	Total	Total
Revenue and support				
Revenue				
Fees and grants from government agencies - exchange	$ 7,034,304	$ -0-	$ 7,034,304	$ 3,648,071
Program service fees, net of tuition assistance and discounts of $1,066,722	4,300,142	-0-	4,300,142	4,320,403
United Way special grants	244,549	-0-	244,549	126,596
Other	11,686	-0-	11,686	-0-
Support				
Fees and grants from government agencies - contributions	-0-	6,781,659	6,781,659	8,674,682
Direct public support - contributions	114,713	102,353	217,066	81,162
Direct public support - grants	28,325	13,586,793	13,615,118	10,385,527
Indirect public support - contributed by associated organizations	8,225	22,000	30,225	30,300
In-kind contributions	752,221	-0-	752,221	821,502
United Way allocation	111,057	143,550	254,607	342,742
United Way special grants	-0-	15,553	15,553	113,845
United Way donor designated contributions	6,951	5,750	12,701	40,221
Investment return, net	885,307	968,373	1,853,680	(184,338)
Change in value of beneficial interests in assets held by others	2,606	16,770	19,376	(4,805)
Net assets released from restrictions	12,117,711	(12,117,711)	-0-	-0-
Total revenue and support	25,617,797	9,525,090	35,142,887	28,395,908
Expenses				
Program services				
Child care centers	11,366,967	-0-	11,366,967	12,088,465
Child and adult care food program	472,614	-0-	472,614	1,403,571
Grant activities and Child Care Answers	10,153,870	-0-	10,153,870	11,041,196
Fundraising	228,026	-0-	228,026	227,807
Management and general	1,844,931	-0-	1,844,931	1,982,657
Total expenses	24,066,408	-0-	24,066,408	26,743,696
Change in net assets	1,551,389	9,525,090	11,076,479	1,652,212
Net assets, beginning of year	9,242,598	17,822,967	27,065,565	25,413,353
Net assets, end of year	$ 10,793,987	$ 27,348,057	$ 38,142,044	$ 27,065,565

See accompanying notes to financial statements.

EARLY LEARNING INDIANA, INC.

STATEMENT OF ACTIVITIES
YEAR ENDED DECEMBER 31, 2018

	Without Donor Restrictions	With Donor Restrictions	Total
Revenue and support			
Revenue			
Fees and grants from government agencies - exchange	$ 3,648,071	$ -0-	$ 3,648,071
Program service fees, net of tuition assistance and discounts of $937,057	4,320,403	-0-	4,320,403
United Way special grants	126,596	-0-	126,596
Support			
Fees and grants from government agencies - contributions	-0-	8,674,682	$ 8,674,682
Direct public support - contributions	60,390	20,772	81,162
Direct public support - grants	27,519	10,358,008	10,385,527
Indirect public support - contributed by associated organizations	300	30,000	30,300
In-kind contributions	821,502	-0-	821,502
United Way allocation	171,371	171,371	342,742
United Way special grants	-0-	113,845	113,845
United Way donor designated contributions	40,221	-0-	40,221
Investment return, net	(197,601)	13,263	(184,338)
Change in value of beneficial interests in assets held by others	(4,805)	-0-	(4,805)
Net assets released from restrictions	14,542,475	(14,542,475)	-0-
Total revenue and support	23,556,442	4,839,466	28,395,908
Expenses			
Program services			
Child care centers	12,088,465	-0-	12,088,465
Child and adult care food program	1,403,571	-0-	1,403,571
Grant activities and Child Care Answers	11,041,196	-0-	11,041,196
Fundraising	227,807	-0-	227,807
Management and general	1,982,657	-0-	1,982,657
Total expenses	26,743,696	-0-	26,743,696
Change in net assets	(3,187,254)	4,839,466	1,652,212
Net assets, beginning of year	12,429,852	12,983,501	25,413,353
Net assets, end of year	$ 9,242,598	$ 17,822,967	$ 27,065,565

See accompanying notes to financial statements.

EARLY LEARNING INDIANA, INC.

STATEMENT OF FUNCTIONAL EXPENSES
YEAR ENDED DECEMBER 31, 2019
(With Comparative Total for the Year Ended December 31, 2018)

	2019							2018
	Program Services				Supporting Services			
	Child Care Centers	Child and Adult Care Food Program	Grant Activities and Child Care Answers	Total Program Services	Fundraising	Management and General	Total Expenses	Total Expenses
Salaries and wages	$ 6,576,132	$ 45,000	$ 3,892,609	$ 10,513,741	$ 74,680	$ 907,081	$ 11,495,502	$ 12,531,415
Employee health, retirement benefits and payroll taxes	1,410,774	9,641	830,492	2,250,907	11,663	200,184	2,462,754	2,528,817
Other employee related expenses	150,031	-0-	102,008	252,039	3,225	62,033	317,297	305,244
	8,136,937	54,641	4,825,109	13,016,687	89,568	1,169,298	14,275,553	15,365,476
Food supplies and contracts	297,438	413,010	9,223	719,671	-0-	529	720,200	697,596
Classroom and educational	239,815	-0-	405,339	645,154	1,584	-0-	646,738	715,938
Licensing and center program	634,841	-0-	1,055	635,896	-0-	-0-	635,896	661,016
Other supplies	13,298	-0-	56,813	70,111	100	2,041	72,252	61,831
Occupancy	478,426	-0-	599,162	1,077,588	24,655	251,628	1,353,871	1,419,477
Depreciation	245,777	-0-	37,048	282,825	1,176	15,365	299,366	305,189
Contracted services	308,729	-0-	-0-	308,729	-0-	-0-	308,729	320,904
Repairs and maintenance	214,747	-0-	-0-	214,747	-0-	-0-	214,747	345,162
Insurance	49,111	-0-	15,919	65,030	505	6,602	72,137	81,490
Public relations, marketing and advertising	12,259	-0-	499,402	511,661	56,942	36,411	605,014	188,260
Office operations	68,821	-0-	57,253	126,074	2,993	26,192	155,259	183,132
Professional fees	496,535	4,593	1,389,877	1,891,005	47,273	303,831	2,242,109	1,471,081
Grants made	-0-	-0-	2,126,863	2,126,863	-0-	-0-	2,126,863	3,388,829
Mileage, parking and travel	112,854	370	130,028	243,252	3,230	29,620	276,102	392,514
Other	57,379	-0-	779	58,158	-0-	3,414	61,572	320,572
Childcare provider pass through	-0-	-0-	-0-	-0-	-0-	-0-	-0-	825,229
Total expenses	$ 11,366,967	$ 472,614	$ 10,153,870	$ 21,993,451	$ 228,026	$ 1,844,931	$ 24,066,408	$ 26,743,696

See accompanying notes to financial statements.

EARLY LEARNING INDIANA, INC.

STATEMENT OF FUNCTIONAL EXPENSES
YEAR ENDED DECEMBER 31, 2018

	Program Services				Supporting Services		
	Child Care Centers	Child and Adult Care Food Program	Grant Activities and Child Care Answers	Total Program Services	Fundraising	Management and General	Total Expenses
Salaries and wages	$ 6,590,990	$ 74,900	$ 4,635,788	$ 11,301,678	$ 170,902	$ 1,058,835	$ 12,531,415
Employee health, retirement benefits and payroll taxes	1,403,092	19,066	903,425	2,325,583	27,750	175,484	2,528,817
Other employee related expenses	144,223	-0-	117,602	261,825	1,252	42,167	305,244
	8,138,305	93,966	5,656,815	13,889,086	199,904	1,276,486	15,365,476
Food supplies and contracts	222,391	468,891	3,180	694,462	-0-	3,134	697,596
Classroom and educational	231,936	28	459,467	691,431	20	24,487	715,938
Licensing and center program	649,801	-0-	11,215	661,016	-0-	-0-	661,016
Other supplies	22,742	-0-	37,909	60,651	222	958	61,831
Occupancy	1,075,886	4,373	260,884	1,341,143	7,604	70,730	1,419,477
Depreciation	247,737	-0-	-0-	247,737	-0-	57,452	305,189
Contracted services	316,147	-0-	-0-	316,147	-0-	4,757	320,904
Repairs and maintenance	335,513	-0-	-0-	335,513	-0-	9,649	345,162
Insurance	51,762	25	1,118	52,905	41	28,544	81,490
Public relations, marketing and advertising	21,956	32	139,969	161,957	7,405	18,898	188,260
Office operations	81,561	591	75,190	157,342	2,817	22,973	183,132
Professional fees	319,336	6,100	747,738	1,073,174	9,350	388,557	1,471,081
Grants made	-0-	-0-	3,388,829	3,388,829	-0-	-0-	3,388,829
Mileage, parking and travel	75,037	4,336	258,882	338,255	444	53,815	392,514
Other	298,355	-0-	-0-	298,355	-0-	22,217	320,572
Childcare provider pass through	-0-	825,229	-0-	825,229	-0-	-0-	825,229
Total expenses	$ 12,088,465	$ 1,403,571	$ 11,041,196	$ 24,533,232	$ 227,807	$ 1,982,657	$ 26,743,696

See accompanying notes to financial statements.

EARLY LEARNING INDIANA, INC.

STATEMENTS OF CASH FLOWS
YEARS ENDED DECEMBER 31, 2019 AND 2018

	2019	2018
Operating activities		
Change in net assets	$ 11,076,479	$ 1,652,212
Adjustments to reconcile change in net assets		
to net cash flows from operating activities:		
Depreciation	299,366	305,189
Realized and unrealized losses (gains) on investments, net	(1,384,928)	462,161
Loss on disposal of property and equipment	35,716	-0-
Bad debts - accounts receivable	58,158	319,448
Contributions restricted for long-term investment	-0-	(9,500,000)
Change in value of beneficial interests in		
assets held by others	(19,376)	4,805
Change in assets and liabilities:		
Accounts receivable	(904,267)	143,922
Contributions receivable	(285,322)	85,758
Prepaid expenses	(778,769)	(193,189)
Accounts payable	897,919	(211,966)
Accrued expenses	(41,211)	56,242
Net cash flows from operating activities	8,953,765	(6,875,418)
Investing activities		
Capital expenditures	(300,485)	(12,581)
Proceeds from the sale of investments	26,725,940	10,211,614
Purchases of investments	(22,472,755)	(16,769,782)
Distributions received from beneficial interests		
in assets held by others	7,054	155,509
Net cash flows from investing activities	3,959,754	(6,415,240)
Financing activities		
Contributions restricted for long-term investment	-0-	9,500,000
Net change in cash	12,913,519	(3,790,658)
Cash, beginning of year	1,100,812	4,891,470
Cash, end of year	$ 14,014,331	$ 1,100,812

See accompanying notes to financial statements.

1. NATURE OF ACTIVITIES

Early Learning Indiana, Inc. (ELI) is a not-for-profit organization dedicated to ensuring the highest level of early care and education for children in Indiana. The following is a description of the services ELI provides:

Child Care Centers – Day Early Learning (DEL) centers operate a network of nine Central Indiana area community-based lab schools used to advance the science of early learning, train the next generation of teachers and leaders, and serve more than 1,000 children as they develop essential skills which will be the foundation of success in school and beyond. DEL works to model the way, delivering learning outcomes in a sustainable way while growing and innovating. The centers are accredited by the National Association for the Education of Young Children and have achieved high-quality status on Indiana's Paths to Quality rating scale. In addition, thanks to a federal grant, DEL also administers Early Head Start programs for children in three high-quality centers.

Child and Adult Care Food Program – The Child and Adult Care Food Program (CACFP) is a federal program which provides reimbursements for nutritious meals and snacks to eligible children who are enrolled for care at participating child care centers. All DEL centers participate in CACFP which provides for reimbursement at free, reduced-price, or paid rates for eligible meals and snacks. CACFP requires DEL centers to plan and prepare healthy snacks for its children and includes various training and oversight requirements to ensure high-quality food is served to DEL children.

Grant Activities and Child Care Answers –

Business Solutions – ELI provides business solutions and serves as a partner, offering high-quality tools and resources to early learning providers to build capacity, transform operations, and improve learning outcomes. ELI is under contract with the Indiana Family and Social Services Administration to support the early learning system throughout the state. ELI operates a statewide call center which services more than 60,000 families a year with child care referrals and evidence-based information. ELI provides coaching, training, and outreach to more than 4,000 individual child care providers, independent research on early education, and advocacy to increase access to high-quality early education for all Hoosiers.

Grant Activities – ELI has also been entrusted with significant investments from the Lilly Endowment Inc. to help grow the quality and capacity of early learning services across Indiana. With the support of a previous grant from Lilly Endowment Inc., ELI has improved the quality of hundreds of programs, trained more than 300 teachers, and created nearly 2,000 new early learning seats, often in otherwise hard-to-serve areas.

Child Care Answers – Child Care Answers (CCA) provides child care resource, training, and referral services to six counties in Central Indiana. CCA helps families navigate child care options and provides information on program quality. With a focus on expanding the skills of the early childhood field, CCA staff provide coaching, training, and free resources to a range of early care programs. It is the vision of CCA to ensure the children of today and tomorrow are cared for in a professional and nurturing manner and families, child care providers, and community leaders know the importance of their roles in the development of children.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation

The financial statements report net assets and changes in net assets in classes that are based upon the existence or absence of restrictions on use that are in place by ELI's donors, as follows:

Net assets without donor restrictions – Net assets without donor restrictions are resources available to support operations. The only limits on the use of such net assets are the broad limits resulting from the nature of ELI, the environment in which it operates, the purposes specified in its corporate documents and its application for tax-exempt status, and any limits resulting from contractual agreements with creditors and others that are entered into in the course of its operations.

Net assets with donor restrictions – Net assets with donor restrictions are subject to donor stipulations for specific operating purposes or time restrictions. These include donor restrictions requiring the net assets be held in perpetuity or for a specific term with investment return available for operations or specific purposes.

When a donor's restriction is satisfied, either by using the resources in the manner specified by the donor or by the passage of time, the expiration of the restriction is reported in the statement of activities by reclassifying the net assets from net assets with donor restrictions to net assets without donor restrictions.

Estimates

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 revenue, support and expenses during the reporting period. Actual results could differ from those estimates.

Cash Equivalents

ELI considers all highly liquid investments with original maturities of three months or less when purchased to be cash equivalents, but excludes cash equivalents held by investment managers and included in investments. At December 31, 2019 and 2018, there are no cash equivalents held outside of investment accounts.

Accounts Receivable

Accounts receivable (contract receivables) represent amounts due to ELI under cost reimbursement grants that are considered to be exchange transactions and performance based service contracts where allowable costs have been incurred or the services have been performed. All amounts are due within one year. Accounts receivable had a balance at December 31, 2019 and 2018 and January 1, 2018 of $1,702,345, $856,236, and $1,044,234, respectively.

Management estimates an allowance for uncollectible accounts receivable based on an evaluation of current economic conditions, historical trends, and past experience with their clients and grantors. Management has estimated and recorded an allowance for doubtful accounts of $11,240 and $13,500 at December 31, 2019 and 2018, respectively.

Contributions Receivable

Contributions receivable consist of amounts that have been unconditionally promised to ELI by donors and amounts due to ELI under cost reimbursement grants determined to be conditional contributions where conditions have been met. Management estimates an allowance for uncollectible contributions receivable based on an evaluation of current economic conditions, historical trends, and past experience with ELI's grantor and donor base. Management has estimated and recorded an allowance for doubtful contributions receivable of $4,600 and $4,666 at December 31, 2019 and 2018, respectively.

Prepaid Expenses

Prepaid expenses include insurance, deposits, and grant payments made in advance to various grantees which are expensed as incurred.

Investments and Investment Return

Investments are carried at fair value for financial reporting purposes. Changes in unrealized appreciation or depreciation of investments are reflected in the statement of activities in the period in which such changes occur. Realized gains and losses are recorded based on the cost of the specific securities sold. Interest and dividend income is recorded when earned. Investment return is recognized as revenue without donor restrictions unless its use is restricted by donors to a specified purpose or future period.

Property and Equipment

It is the policy of ELI to capitalize all significant purchases of property and equipment at cost, including expenditures that substantially increase the useful lives of existing assets. Costs of ordinary maintenance and repairs are expensed as incurred.

Management evaluates properties held and used in its programs for impairment. No impairment losses have been recorded based on management's evaluation.

Property and equipment are depreciated over their estimated useful lives using the straight-line method. ELI's estimates for the useful lives of its capitalized assets range from three to fifteen years for furniture and equipment, fifteen to thirty years for buildings, land improvements, and leasehold improvements and thirty-one to thirty-three years for lease deposits.

Gifts of property and equipment are recorded as support at their estimated fair value. Such gifts are reported as support without donor restrictions unless the donor has restricted the donated asset to a specific purpose or stipulated how long those long-lived assets must be used. Absent donor stipulations, property and equipment gifts are recorded as support without donor restrictions.

Revenue and Support Recognition

Program service fees (contract fees) for childcare are recognized over time in the period the child care is provided at the stated price per contract. Revenue funded by grants and contracts (contract fees) considered to be exchange transactions are recognized over time as ELI performs the contracted services or incurs eligible expenses under the grant agreements, at the stated price per contract. Activities and expenses allocated to grants and contracts are subject to audit and acceptance by the awarding agency and, as a result of such audit, adjustments could be required.

ELI recognizes contributions when cash, securities or other assets; an unconditional promise to give; or a notification of a beneficial interest is received. Conditional promises to give - that is, those with a measurable performance or other barrier and a right of return - are not recognized until the conditions on which they depend have been met.

Consequently, at December 31, 2019, contributions approximating $10,200,000 have not been recognized in the accompanying statement of activities because the conditions on which they depend have not yet been met. Of the total conditional contributions, approximately $2,000,000 of conditional contributions depend on raising additional contributions before October 31, 2021 that will be matched dollar-for-dollar.

All other revenue is recognized when earned and is reported as an increase in net assets without donor restrictions.

Advertising Costs

ELI expenses advertising costs as they are incurred. Advertising costs (including public relations, marketing and advertising expenses) for the years ended December 31, 2019 and 2018 were $605,014 and $188,260, respectively.

In-Kind Contributions

ELI receives in-kind contributions from various donors. It is the policy of ELI to record the estimated fair value of in-kind donations (other than gifts of property and equipment) as both a contribution and an expense in its financial statements. The donated use of facilities comprises approximately 99% of ELI's in-kind contributions for the years ended December 31, 2019 and 2018.

Functional Allocation of Expenses

The costs of providing the programs and services of ELI have been summarized on a functional basis in the statement of functional expenses. Directly identifiable expenses are charged to programs and supporting services. Expenses related to more than one function are charged to programs and supporting services based on time and usage by personnel and programs. Expenses allocated include salaries and benefits, rent, occupancy costs and depreciation. In certain instances, grant budgets specify the expenditures allowed and as these expenses are incurred, they are charged to the grant. Although the method used was appropriate, other methods could produce different results.

Income Taxes

ELI is organized as a not-for-profit corporation under Section 501(c)(3) of the United States Internal Revenue Code and similar state law.

Accounting principles generally accepted in the United States of America require management to evaluate tax positions taken by ELI and recognize a tax liability if ELI has taken an uncertain position that more likely than not would not be sustained upon examination by various federal and state taxing authorities. Management has analyzed the tax positions taken by ELI, and has concluded that as of December 31, 2019 and 2018, there are no uncertain positions taken or expected to be taken that would require recognition of a liability or disclosure in the accompanying financial statements.

ELI is generally exempt from income taxes. However, ELI is required to file Federal Form 990 – Return of Organization Exempt from Income Tax and a corresponding state return, which are informational returns only. ELI has filed its Federal and state informational tax returns for periods through December 31, 2018 and is subject to routine audits by taxing jurisdictions. However, as of the date the financial statements were available to be issued, there were no audits for any tax periods in progress.

Recently Issued Accounting Standards

In February 2016, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) No. 2016-02, *Leases (Topic 842)*. This new standard, which ELI is not required to adopt until its year ending December 31, 2021, is intended to improve financial reporting about leasing transactions by requiring entities that lease assets to recognize on their statement of financial position the assets and liabilities for the rights and obligations created by those leases, and to provide additional disclosures regarding the leases. Leases with terms (as defined in the ASU) of twelve months or less are not required to be reflected on an entity's statement of financial position.

ELI is presently evaluating the effects this ASU will have on its future financial statements, including related disclosures.

Reclassifications

Certain reclassifications have been made to the 2018 financial statements herein to conform to the 2019 presentation. These reclassifications had no effect on the total net assets or the total change in net assets for 2018.

Subsequent Events

ELI evaluates events occurring subsequent to the date of the financial statements in determining the accounting for and disclosure of transactions and events that affect the financial statements. Subsequent events have been evaluated through June 22, 2020, which is the date the financial statements were available to be issued.

3. CHANGE IN ACCOUNTING PRINCIPLES

ASU 2014-09

Effective January 1, 2019, ELI adopted FASB ASU No. 2014-09, *Revenue Recognition* (ASC 606). The core principle of this new guidance is that "an entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services." In accordance with ASC 606, ELI has adopted the requirements using the modified retrospective approach. Adoption of the new guidance resulted in expanded disclosures regarding ELI's revenue recognition policies. Under the modified retrospective approach, any cumulative effects of initial application are to be presented as an adjustment to the opening balance of net assets in the year of adoption. No adjustments to the opening net asset balances were necessary upon adoption by ELI.

ASU 2018-08

Effective January 1, 2019, ELI adopted FASB ASU No. 2018-08, *Clarifying the Scope and Accounting Guidance for Contributions Received and Contributions Made* (ASC 958). ASU 2018-08 clarifies and improves current guidance about whether a transfer of assets (or the reduction, settlement, or cancellation of liabilities) is a contribution or an exchange transaction. The amendments clarify how an entity determines whether a resource provider is participating in an exchange transaction by evaluating whether the resource provider is receiving commensurate value in return for the resources transferred. Additionally, the amendments in this ASU require that an entity determine whether a contribution is conditional on the basis of whether an agreement includes a barrier that must be overcome and either a right of return on assets transferred or a right of release of a promisor's obligation to transfer assets. The adoption of ASU 2018-08 resulted in reclassifications of some revenue sources from exchange transactions to conditional contributions. Amounts totaling $8,671,602 were reclassified as contributions and net assets released in the 2018 financial statements to conform to the presentation of revenue and support in the 2019 financial statements. There was no effect on beginning net assets as a result of implementing ASU 2018-08.

4. CONTRIBUTIONS RECEIVABLE

Contributions receivable are as follows at December 31:

	2019	2018
United Way of Central Indiana	$ 143,550	$ 171,371
United Way of Central Indiana - government	42,956	43,602
Government grants	195,675	173,380
Corporate, foundation and individual donors	368,090	76,662
	750,271	465,015
Less allowance for uncollectible amounts	(4,600)	(4,666)
	$ 745,671	$ 460,349

All unconditional contributions receivable as of December 31, 2019 and 2018, respectively, are due in less than one year.

At December 31, 2019 and 2018, amounts due under one cost reimbursement grant amounted to 21% and 31%, respectively, of total contributions receivable.

At December 31, 2019, one contribution receivable comprises approximately 87% of the amounts due from corporate, foundation and individual donors. At December 31, 2018, one contribution receivable comprised approximately 39% of the amounts due from corporate, foundation and individual donors.

5. INVESTMENTS

Investments consist of the following at December 31:

	2019	2018
Cash equivalents	$ -0-	$ 10,806
Certificates of deposit	251,149	1,983,596
Money market mutual funds	2,594,868	4,873,552
Common stock	2,248,213	1,583,227
Exchange-traded funds	2,922,202	791,493
Equity mutual funds	5,018,127	585,709
Fixed income mutual funds	1,617,372	308,628
Corporate bonds	1,616,554	455,971
U.S. Treasury notes	1,457,737	9,784,954
U.S. government agency bonds	25,422	150,000
Municipal bonds	97,475	219,527
Real estate investment trusts	101,022	70,935
	$ 17,950,141	$ 20,818,398

Investments are reported on the statements of financial position as follows at December 31:

	2019	2018
Investments	$ 2,392,839	$ 6,799,191
Endowment investments	15,557,302	14,019,207
	$ 17,950,141	$ 20,818,398

ELI's investments are held and managed by two investment management firms. At December 31, 2019 and 2018, 12% and 23%, respectively, of ELI's investments are held in a single money market mutual fund.

The following schedule summarizes investment return for the years ended December 31:

	2019	2018
Interest and dividend income	$ 522,040	$ 310,568
Realized gains, net	240,917	125,524
Unrealized gains (losses), net	1,144,011	(587,685)
Investment fees	(53,288)	(32,745)
	$ 1,853,680	$ (184,338)

6. PROPERTY AND EQUIPMENT

Property and equipment consist of the following at December 31:

	2019	2018
Land	$ 261,544	$ 261,544
Land improvements	76,120	71,013
Lilly Center building	1,589,729	1,720,494
16th Street building	1,036,765	1,004,842
Furniture and equipment	263,716	324,670
Leasehold improvements	1,304,308	1,296,617
Lease deposits	1,751,809	1,751,809
Construction in progress	216,673	-0-
	6,500,664	6,430,989
Accumulated depreciation	(2,905,007)	(2,800,735)
	$ 3,595,657	$ 3,630,254

Construction in progress at December 31, 2019 includes costs related to an enrollment and center management software. There are no remaining contractual commitments related to this project; future costs will be capitalized as work is performed. This project is expected to be completed and placed in service in 2020.

ELI has a lease with IU Health (IUH) for the downtown Indianapolis IUH childcare center for annual rent of $1. The lease was renewed for 2020, and can be renewed annually thereafter upon mutual agreement by both parties. Under conditions of the lease, ELI paid for half the cost to construct the center (included in lease deposits above). IUH paid the other half of the construction costs. Upon termination of the lease, ELI will receive half of the fair market value of the building. The net book value of the building was $1,356,239 and $1,412,749 at December 31, 2019 and 2018, respectively.

7. BENEFICIAL INTERESTS IN ASSETS HELD BY OTHERS

ELI has established designated endowment funds with Central Indiana Community Foundation (CICF) and is the beneficiary of the funds holding those assets. At December 31, 2019 and 2018, ELI has two designated endowment funds. The fair value of beneficial interests in assets held by others is included in the statements of financial position at $163,049 and $150,727 at December 31, 2019 and 2018, respectively.

The change in the value of the beneficial interests in assets held by others in the statements of activities includes realized and unrealized gains and losses, interest and dividends, and administration and investment fees.

Annual earnings are allocated to each fund by CICF. One of the funds, with a balance of $52,431 and $48,143 at December 31, 2019 and 2018, respectively, is permanently endowed, and only a portion of the fund balance is available for distribution during the succeeding year in accordance with the spending policy adopted by the CICF Board of Directors. At the time of execution of the agreement, the spending policy provided for 5% of the December 31 fund balance as the portion available for distribution, in addition to any unspent distributable amounts from prior years. The remaining fund, with balance of $110,618 and $102,584 at December 31, 2019 and 2018, respectively, allow funds to be withdrawn in their entirety so long as ELI continues to comply with any donor restrictions on such funds. This fund includes a permanently restricted balance in the amount of $107,465 at December 31, 2019 and 2018. See Note 11 for further discussion of endowment funds with deficiencies.

8. CREDIT FACILITIES

ELI had a $2,500,000 line of credit agreement with a bank, which matured on October 18, 2019 and was extended through January 24, 2020. Borrowings bear interest at the London InterBank Offered Rate (LIBOR) plus 1.86% (3.60% at December 31, 2019). The line of credit agreement is secured by all business assets of ELI, excluding investments. The agreement subjects ELI to certain restrictive covenants, including limitations on the creation of liens, additional indebtedness, and the making of loans, advances and guarantees, and the maintenance of a prescribed debt service coverage ratio. There were no outstanding borrowings on this facility at December 31, 2019 or 2018.

On January 24, 2020, ELI entered into a $2,000,000 line of credit agreement with a bank, which matures on November 24, 2020. Borrowings bear interest at LIBOR plus 2.00%. The line of credit agreement is secured by all business assets of ELI, excluding investments. The agreement subjects ELI to certain restrictive covenants, including limitations on the creation of liens, additional indebtedness, and the making of loans, advances and guarantees, and the maintenance of a prescribed minimum liquidity.

9. NET ASSETS

Board Designated Net Assets

Board designated net assets are net assets without donor restrictions subject to self-imposed limits determined by action of the Board of Directors. At December 31, 2019 and 2018, the Board of Directors has designated $4,741,200 and $4,168,872, respectively, for long-term investment (quasi-endowment), with the income available to support tuition assistance.

Net Assets With Donor Restrictions

Net assets with donor restrictions are available for the following purposes or periods at December 31:

	2019	2018
Purpose restricted:		
Capacity building and program support	$ 16,045,587	$ 6,940,766
IT infrastructure	46,989	500,000
Advocacy	-0-	44,011
Specific center use	38,671	90,000
Tuition assistance	-0-	3,916
Staff training	53,152	61,936
Other	-0-	9,905
	16,184,399	7,650,534
Time restricted for future periods:		
United Way of Central Indiana	184,507	171,371
Endowment		
Tuition assistance	163,049	153,333
Future operations	10,816,102	9,847,729
	10,979,151	10,001,062
	$ 27,348,057	$ 17,822,967

Released From Restrictions

Net assets were released from donor restrictions by incurring expenses satisfying the restricted purposes or by occurrence of other events specified by donors related to the following for the years ended December 31:

	2019	2018
Capacity building and program support	$ 4,543,368	$ 5,243,266
IT infrastructure	453,011	-0-
Advocacy	44,011	30,989
Specific center use	121,122	13,000
Tuition assistance	50,070	83,393
Staff training	72,094	169,407
Other	9,905	126,458
Government funded programs	6,652,759	8,671,602
Time restrictions expired		
United Way of Central Indiana	171,371	204,360
	$ 12,117,711	$ 14,542,475

10. FAIR VALUE MEASUREMENTS

The framework for measuring fair value provides a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1) and the lowest priority to unobservable inputs (Level 3). The three levels of fair value hierarchy are described as follows:

- Level 1 – Inputs to the valuation methodology are unadjusted quoted prices for identical assets or liabilities in active markets that ELI has the ability to access.

- Level 2 – Inputs to the valuation methodology include quoted prices for similar assets or liabilities in active markets; quoted prices for identical or similar assets or liabilities in inactive markets; inputs other than quoted prices that are observable for the asset or liability; inputs that are derived principally from or corroborated by observable market data by correlation or other means. If the asset or liability has a specified (contractual) term, the Level 2 input must be observable for substantially the full term of the asset or liability.

- Level 3 – Inputs to the valuation methodology are unobservable and significant to the fair value measurement.

The asset or liability's fair value measurement level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. Valuation techniques used need to maximize the use of observable inputs and minimize the use of unobservable inputs.

Following is a description of the valuation methodologies used for assets measured at fair value. There have been no changes in the methodologies used at December 31, 2019 and 2018.

- *Money market mutual funds:* Generally transact subscription and redemption activity at a $1 stable net asset value (NAV); however, on a daily basis the funds are valued at their daily NAV calculated using the amortized cost of the securities held in the fund.

- *Common stock, exchange traded funds and real estate investment trusts:* Valued at the closing price reported on the active market on which the individual securities are traded.

- *Mutual funds*: Valued at the daily closing price as reported by the fund. Mutual funds held by ELI are open-end mutual funds that are registered with the Securities and Exchange Commission. These funds are required to publish their daily NAV and to transact at that price. The mutual funds held by ELI are deemed to be actively traded.

- *Bonds and notes (corporate, U.S. Treasury, U.S. government agency, and municipal):* Valued using pricing models maximizing the use of observable inputs for similar securities. This includes basing value on yields currently available on comparable securities of issuers with similar credit ratings.

- *Beneficial interests in assets held by others:* Valued at fair value as reported by CICF, which represents ELI's pro rata interest in CICF's pooled investment funds, substantially all of which are valued on a mark-to-market basis. As described in Note 7, one of ELI's CICF funds is a permanent endowment fund which limits withdrawals based on an annual draw calculation. This fund is classified as Level 3. The remaining fund is not subject to these limitations and is able to be withdrawn in its entirety so long as ELI continues to comply with any donor restrictions on such funds. This fund is classified as Level 2 based on ELI's ability to withdraw the funds at least quarterly without penalty.

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

The following tables set forth by level, within the hierarchy, ELI's assets measured at fair value on a recurring basis at December 31:

	2019			
	Level 1	Level 2	Level 3	Total
Investments				
Money market mutual funds	$ -0-	$ 2,594,868	$ -0-	$ 2,594,868
Common stock	2,248,213	-0-	-0-	2,248,213
Exchange-traded funds	2,922,202	-0-	-0-	2,922,202
Equity mutual funds	5,018,127	-0-	-0-	5,018,127
Fixed income mutual funds	1,617,372	-0-	-0-	1,617,372
Corporate bonds	-0-	1,616,554	-0-	1,616,554
U.S. Treasury notes	-0-	1,457,737	-0-	1,457,737
U.S. government agency bonds	-0-	25,422	-0-	25,422
Municipal bonds	-0-	97,475	-0-	97,475
Real estate investment trusts	101,022	-0-	-0-	101,022
	$ 11,906,936	$ 5,792,056	$ -0-	17,698,992
Certificates of deposit				251,149
				$ 17,950,141
Beneficial interests in assets held by others	$ -0-	$ 110,618	$ 52,431	$ 163,049

	2018			
	Level 1	Level 2	Level 3	Total
Investments				
Money market mutual funds	$ -0-	$ 4,873,552	$ -0-	$ 4,873,552
Common stock	1,583,227	-0-	-0-	1,583,227
Exchange-traded funds	791,493	-0-	-0-	791,493
Equity mutual funds	585,709	-0-	-0-	585,709
Fixed income mutual funds	308,628	-0-	-0-	308,628
Corporate bonds	-0-	455,971	-0-	455,971
U.S. Treasury notes	-0-	9,784,954	-0-	9,784,954
U.S. government agency bonds	-0-	150,000	-0-	150,000
Municipal bonds	-0-	219,527	-0-	219,527
Real estate investment trusts	70,935	-0-	-0-	70,935
	$ 3,339,992	$ 15,484,004	$ -0-	18,823,996
Cash equivalents				10,806
Certificates of deposit				1,983,596
				$ 20,818,398
Beneficial interests in assets held by others	$ -0-	$ 102,584	$ 48,143	$ 150,727

ELI's policy is to recognize transfers between levels as of the end of the reporting period. There were no significant transfers between levels at December 31, 2019 and 2018.

The change in financial assets with significant unobservable (Level 3) inputs is as follows for the years ended December 31:

	2019	2018
Beginning balance	$ 48,143	$ 56,072
Change in fair value of fund	6,609	(1,306)
Grant and program expenses	(1,925)	(6,061)
Fees	(396)	(562)
	$ 52,431	$ 48,143

ELI's investments and beneficial interests in assets held by others are exposed to various risks such as interest rate, market, and credit. Due to the level of risk associated with these securities and the level of uncertainty related to changes in the value, it is at least reasonably possible that changes in the various risk factors will occur in the near term that could materially affect the amounts reported in the accompanying financial statements.

11. ENDOWMENT

ELI's endowment consists of funds held by CICF (Note 7), and investment accounts (Note 5) established to provide support for tuition assistance and future operations. The endowment includes both donor-restricted endowment funds and funds designated by the Board of Directors to function as an endowment. As required by accounting principles generally accepted in the United States of America, net assets associated with endowment funds are classified and reported based on the existence or absence of donor-imposed restrictions.

Interpretation of Relevant Law

ELI is subject to the State Prudent Management of Institutional Funds Act (SPMIFA) and, thus, classifies amounts in its donor-restricted endowment funds as net assets with donor restrictions because those net assets are time restricted until the Board of Directors appropriates such amounts for expenditure. A portion of those net assets also are subject to purpose restrictions that must be met before reclassifying those net assets to net assets without donor restrictions. The Board of Directors of ELI has interpreted SPMIFA as not requiring the maintenance of purchasing power of the original gift amount contributed to an endowment fund, unless a donor stipulates the contrary. As a result of this interpretation, when reviewing its donor-restricted endowment funds, ELI considers a fund to be underwater if the fair value of the fund is less than the sum of (a) the original value of initial and subsequent gift amounts donated to the fund and (b) any accumulations to the fund that are required to be maintained in perpetuity in accordance with the direction of the applicable donor gift instrument.

ELI has interpreted SPMIFA as allowing spending from underwater funds in accordance with the prudent measure required under the law. Additionally, in accordance with SPMIFA, ELI considers the following factors in making a determination to appropriate or accumulate donor restricted endowment funds:

(1) The duration and preservation of the fund
(2) The purposes of ELI and the donor-restricted endowment fund
(3) General economic conditions
(4) The possible effect of inflation and deflation
(5) The expected total return from income and the appreciation of investments
(6) Other resources of ELI
(7) The investment policies of ELI

Funds with Deficiencies

From time to time, the fair value of assets associated with individual donor-restricted endowment funds may fall below the level that a donor or SPMIFA requires ELI to retain as a fund of perpetual duration. At December 31, 2018, a deficiency of this nature existed in one designated endowment fund with CICF, which had an original gift of value of $107,465, a current fair value of $102,584, and a deficiency of $4,881, reported in net assets with donor restrictions. This deficiency resulted from unfavorable market fluctuations and continued appropriation for certain programs that was deemed prudent by the Board of Directors. There were no such deficiencies at December 31, 2019.

Return Objectives and Risk Parameters

ELI has adopted investment policies for endowment assets that attempt to provide a predictable stream of funding to operations and programs supported by its endowment while seeking to maintain the purchasing power of the endowment assets.

The funds held by CICF (beneficial interests in assets held by others) are invested according to CICF's pooled investment fund strategies. ELI's endowment investments are invested in a manner that is intended to produce a total return which protects the purchasing power of the endowment investments and which allows spending under the terms of each endowment fund.

Strategies Employed for Achieving Objectives

To satisfy its long-term rate-of-return objectives, ELI relies on a total return strategy in which investment returns are achieved through both capital appreciation (realized and unrealized) and current yield (interest and dividends). Both ELI and CICF target a diversified asset allocation that places an emphasis on long-term growth and a reasonable return within prudent risk constraints.

Spending Policy and How the Investment Objectives Relate to Spending Policy

CICF has a policy that ELI can disburse from its permanent endowment fund (Note 7) up to 5% of the endowment's previous year fund balance for ELI expenditures, in addition to any unspent distributable amounts from prior years. For its own investments and for the remaining endowment funds at CICF, ELI's goal is to be able to disburse between 4% and 5% of the portfolio's current value annually, except for those donor restricted endowment funds held to support future operations (Note 9), which shall be spent at 2% annually, or any percentage as is consistent with prudent spending policies for donor restricted endowments if the fund balance is greater than the original gift amount. This is consistent with ELI's objective to maintain the purchasing power of the endowment assets held in perpetuity or for a specified term as well as to provide additional real growth through investment return.

The composition of endowment net assets is as follows at December 31:

	2019		
	Without Donor Restrictions	With Donor Restrictions	Total
Board designated endowment funds	$ 4,741,200	$ -0-	$ 4,741,200
Donor restricted endowment funds			
Original donor-restricted gift amount and amounts required to be maintained in perpetuity by donor	-0-	9,937,367	9,937,367
Accumulated investment gains	-0-	1,041,784	1,041,784
	$ 4,741,200	$ 10,979,151	$ 15,720,351

	2018		
	Without Donor Restrictions	With Donor Restrictions	Total
Board designated endowment funds	$ 4,168,872	$ -0-	$ 4,168,872
Donor restricted endowment funds			
Original donor-restricted gift amount and amounts required to be maintained in perpetuity by donor	-0-	9,937,367	9,937,367
Accumulated investment gains	-0-	63,695	63,695
	$ 4,168,872	$ 10,001,062	$ 14,169,934

The change in endowment net assets is as follows for the years ended December 31:

	2019		
	Without Donor Restrictions	With Donor Restrictions	Total
Endowment net assets, beginning of year	$ 4,168,872	$ 10,001,062	$ 14,169,934
Investment return, net	754,402	968,373	1,722,775
Change in value of beneficial interests in assets held by others	2,606	16,770	19,376
Distributions	(184,680)	(7,054)	(191,734)
Endowment net assets, end of year	$ 4,741,200	$ 10,979,151	$ 15,720,351

	2018		
	Without Donor Restrictions	With Donor Restrictions	Total
Endowment net assets, beginning of year	$ 4,672,347	$ 497,548	$ 5,169,895
Contributions	-0-	9,500,000	9,500,000
Investment return, net	(319,856)	13,263	(306,593)
Change in value of beneficial interests in assets held by others	(4,805)	-0-	(4,805)
Distributions	(178,814)	(9,749)	(188,563)
Endowment net assets, end of year	$ 4,168,872	$ 10,001,062	$ 14,169,934

12. LIQUIDITY AND AVAILABILITY OF RESOURCES

The following table reflects ELI's financial assets as of December 31 that are available to meet general expenditures within one year of the statement of financial position date; that is, amounts that are without donor restrictions or board designations limiting their use.

	2019	2018
Financial assets		
Cash	$ 14,014,331	$ 1,100,812
Investments	2,392,839	6,799,191
Accounts receivable, net	1,702,345	856,236
Contributions receivable, net	745,671	460,349
Endowment investments	15,557,302	14,019,207
Beneficial interests in assets held by others	163,049	150,727
Total financial assets	34,575,537	23,386,522
Net assets with donor restrictions		
Purpose restricted	(16,184,399)	(7,650,534)
Endowment	(10,979,151)	(10,001,062)
Board designated fund net assets - endowment	(4,741,200)	(4,168,872)
Financial assets available to meet cash needs for general expenditures within one year	$ 2,670,787	$ 1,566,054

Endowment funds consist of donor-restricted endowments and funds designated by the Board of Directors to function as endowments. Income from donor-restricted endowments is restricted for tuition assistance and future operations (Note 9). The board designated endowment is designated by the Board of Directors to provide income to support tuition assistance. Although ELI does not intend to spend the board designated endowment to meet general expenditures, the amounts could be made available by the board of directors, if necessary.

As part of ELI's liquidity management plan, amounts remain in investments until they are required to be transferred to ELI's operating bank account to meet operating expenses.

It is the Board of Directors' objective to accumulate an operating reserve totaling 60-90 days of cash-basis expenses (excluding depreciation, in-kind expenses, fully funded grant expenditures and pass-through amounts) based on the upcoming year's budget, which includes cash on hand as well as any available line of credit balances.

As more fully described in Note 8, ELI maintains a line of credit with a bank available to be drawn upon as needed during the year. At December 31, 2019 and 2018, ELI has no outstanding borrowings and the full amount of $2,500,000 (reduced to $2,000,000 on January 24, 2020) is available for general expenditure liquidity needs.

13. RETIREMENT PLAN

ELI offers a 401(k) retirement plan covering substantially all employees who fulfill the eligibility requirements. ELI matches 100% of the employee's contribution up to 5% of the employee's total salary and may also make discretionary contributions to the plan. Employer matching contributions are fully vested at the time of the contribution, while employer discretionary contributions are subject to the vesting schedule. ELI's contribution expense to the plan for the years ended December 31, 2019 and 2018 was $299,225 and $244,963, respectively.

14. LEASES

No rent is charged to ELI for five (six for 2018) of the seven childcare centers it manages but does not own. For these five centers, ELI has recorded a contribution and corresponding expense for the donated rent. For one of the remaining facilities, ELI has a 16-year lease agreement that calls for escalating monthly payments. Rent expense on this lease is recorded on a straight-line basis, resulting in a rent accrual (included in accrued expenses) of $90,941 and $100,166 at December 31, 2019 and 2018, respectively. This lease expires in July 2025. During 2019, ELI entered into a lease agreement for the seventh center commencing May 1, 2019 and expiring April 30, 2020, with twelve monthly installments.

ELI leases various equipment under the terms of non-cancelable operating leases with expiration dates through 2021.

ELI has a lease agreement for its primary office space with a term commencing December 1, 2016 and expiring November 30, 2021. The agreement requires monthly installments of base rent, plus a pro-rata share of certain common costs for property maintenance. Under this agreement, ELI also has the right to reduce the square footage and corresponding base rent, with the payment of a downsizing fee, given it provides 120 days' written notice, should its contract with a certain funding source terminate. The lease provides ELI with one five year renewal option.

Rent expense, excluding in-kind rent, was $527,722 and $494,817 for the years ended December 31, 2019 and 2018, respectively.

Future minimum lease payments under the terms of non-cancelable operating leases at December 31, 2019 are summarized below:

Year Ending December 31,	
2020	$ 498,206
2021	441,266
2022	108,180
2023	110,340
2024	112,500
Thereafter	66,360
	$ 1,336,852

15. RELATED PARTY TRANSACTIONS

The Day Nursery Auxiliary (Auxiliary) is an organization engaged in various fundraising activities which contributes property and funds as well as provides volunteer services for center activities to ELI. The Auxiliary contributed $30,225 and $30,300 to ELI in 2019 and 2018, respectively. The Auxiliary and ELI Boards of Directors share some common members, but none has a majority control.

16. CONCENTRATIONS

Concentration of Credit Risk

ELI maintains its cash in bank deposit accounts, which regularly exceed federally insured limits. ELI has not experienced any losses in such accounts.

Funding Concentration

ELI is funded by grants and contracts awarded directly and indirectly by Federal and state governments. The majority of the agreements contain provisions that permit the arrangements to be terminated or the funds provided to be reduced if the unit of government does not appropriate adequate funds to maintain the current funding levels.

During 2019 and 2018, ELI received $13,000,000 and $10,150,000 of its direct public support – grants from one organization, respectively.

17. SUBSEQUENT EVENTS

On March 11, 2020, the World Health Organization declared Coronavirus (COVID-19) a pandemic. The continued spread of COVID-19, or any similar outbreaks in the future, may adversely impact the local, regional, national and global economies. The extent to which COVID-19 impacts ELI's operating results is dependent on the breadth and duration of the pandemic and could be affected by other factors management is not currently able to predict. Potential impacts include, but are not limited to, additional costs for responding to COVID-19, shortages of personnel, shortages of supplies, delays, loss of, or reduction to, revenue, contributions and funding, and investment portfolio declines. Management believes ELI is taking appropriate actions to respond to the pandemic, however, the full impact is unknown and cannot be reasonably estimated at the date the financial statements were available to be issued.

On May 4, 2020, ELI received a low interest loan in the amount of $2,195,556 under the Paycheck Protection Program (PPP) administered by the Small Business Administration. The PPP loan is unsecured, bears interest at 1% and funds advanced under the program are subject to forgiveness, if certain criteria is met, with the remaining balance repayable within two years of disbursement. The PPP loan may be forgivable to the extent that employers incur and spend the funds on qualified expenditures, which include payroll, employee health insurance, rent, utilities and interest costs during the covered period (the 8-week period beginning on loan origination). In addition, employers must maintain specified employment and wage levels during the pandemic, and submit adequate documentation of such expenditures to qualify for PPP loan forgiveness.

In May 2020, Lilly Endowment Inc. awarded ELI a $15,743,000 restricted grant to support statewide COVID-19 child care priorities. ELI will offer grants to child care providers to help offset new expenses incurred to safely operate and continue delivering early learning experiences in the wake of COVID-19.

ADDITIONAL REPORTS AND INFORMATION REQUIRED UNDER SINGLE AUDIT ACT

CPAS / ADVISORS

blue

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REPORT OF INDEPENDENT AUDITORS 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
Early Learning Indiana, Inc.
Indianapolis, Indiana

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 Early Learning Indiana, Inc. (ELI), which comprise the statement of financial position as of December 31, 2019, 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 June 22, 2020.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered ELI'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 ELI's internal control. Accordingly, we do not express an opinion on the effectiveness of ELI'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 ELI'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.

REPORT OF INDEPENDENT AUDITORS 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*
(Continued)

Compliance and Other Matters

As part of obtaining reasonable assurance about whether ELI's financial statements are free of 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 ELI's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering ELI's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Blue & Co., LLC

Carmel, Indiana
June 22, 2020

CPAS / ADVISORS

blue

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REPORT OF INDEPENDENT AUDITORS ON COMPLIANCE FOR EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY THE UNIFORM GUIDANCE

Board of Directors
Early Learning Indiana, Inc.
Indianapolis, Indiana

Report on Compliance for Each Major Federal Program

We have audited Early Learning Indiana, Inc.'s (ELI) compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on each of ELI's major federal programs for the year ended December 31, 2019. ELI's major federal 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 statutes, regulations, and the terms and conditions of its federal awards applicable to its federal programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of ELI's major federal 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; and 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). Those standards and the Uniform Guidance 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 program occurred. An audit includes examining, on a test basis, evidence about ELI'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 program. However, our audit does not provide a legal determination of ELI's compliance.

REPORT OF INDEPENDENT AUDITORS ON COMPLIANCE FOR EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY THE UNIFORM GUIDANCE (Continued)

Opinion on Each Major Federal Program

In our opinion, ELI 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 programs for the year ended December 31, 2019.

Report on Internal Control Over Compliance

Management of ELI 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 ELI's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal 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 program and to test and report on internal control over compliance in accordance with the Uniform Guidance, 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 ELI'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 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 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 combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal 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 of this section 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 to be 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. Accordingly, this report is not suitable for any other purpose.

Blue & Co., LLC

Carmel, Indiana
June 22, 2020

Section I - Summary of Auditor's Results

Financial Statements

Type of auditor's report issued:	Unmodified
Internal control over financial reporting:	
Material weaknesses identified?	No
Significant deficiencies identified?	None reported
Noncompliance material to financial statements noted?	No

Federal Awards

Internal control over major programs:	
Material weaknesses identified?	No
Significant deficiencies identified?	None reported
Type of auditor's report issued on compliance for major programs:	Unmodified
Any audit findings disclosed that are required to be reported in accordance with 2 CFR section 200.516(a)?	No

Major programs:

CFDA Number(s)	*Name of Federal Program or Cluster*
10.558	Child and Adult Care Food Program
93.575	Child Care Development Fund Cluster

Dollar threshold used to distinguish between type A and type B programs:	$750,000
Auditee qualified as low-risk auditee?	No

Section II - Financial Statement Findings

None Reported

Section III - Federal Award Findings and Questioned Costs

None Reported

2018-001

Financial Statement Finding

Prior Condition:

Material adjustments were made to the SEFA, which were identified through audit procedures.

Prior Recommendation:

We recommended that procedures surrounding the preparation of the SEFA be updated to include a reconciliation of information used to prepare the SEFA to the general ledger after all year-end closing entries have been prepared.

Current Status:

ELI adopted procedures to reconcile information used to prepare the SEFA to the general ledger. No material adjustments were made to the SEFA as a result of audit procedures. This finding is considered resolved.

2018-002

Financial Statement Finding

Prior Condition:

Controls surrounding the recording of tuition revenue and receivables were considered deficient.

Prior Recommendation:

We recommended that procedures surrounding the recording and monitoring of center revenue and receivables be updated to ensure parents enter time correctly and completely so that ELI will receive the full amount claimed. Additionally, procedures should ensure receivable balances are collectible and recorded in the correct fiscal year.

Current Status:

ELI adopted procedures to ensure center revenue is complete and collectible. There were no material adjustments to center revenue. This finding is considered resolved.

2018-003

Federal Award Finding

Prior Condition:

For the Child and Adult Care Food Program, ELI did not follow its procurement policy nor did it follow Uniform Guidance.

Prior Recommendation:

We recommended that ELI's procurement policy be updated to match Uniform Guidance requirements including all methods of procurement available. In addition, because the program also has specific state requirements, it should be adaptable to meet those additional requirements. ELI must document its use of method and decisions made.

Current Status:

ELI adopted a new procurement policy, which is in accordance with Uniform Guidance. 2019 procurements for the Child and Adult Care Food Program adhered to this policy. Therefore, the finding is considered resolved.

2018-004

Federal Award Finding

Prior Condition:

For the Child Care Resource and Referral Program, documentation of certain eligibility criterial was not available.

Prior Recommendation:

Because the portion of the program which contained this finding ended September 30, 2018, we recommended that ELI continue to look for the eligibility documentation until the program is closed.

Current Status:

The program is now closed. No additional documentation was found. This finding is considered to be resolved.

SUPPLEMENTARY INFORMATION

EARLY LEARNING INDIANA, INC.

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
YEAR ENDED DECEMBER 31, 2019

Federal Grantor/Pass-Through Grantor/Program or Cluster Title	Federal CFDA Number	Award Number/ Pass-Through Entity Identifying Number	Pass Through to Subrecipients	Federal Expenditures
U.S. Department of Agriculture				
Indiana Department of Education				
Child and Adult Care Food Program	10.558	1490097	$ -0-	$ 472,614
U.S. Department of Health and Human Services				
Child Care Development Fund Cluster:				
Indiana Family and Social Services Administration				
Child Care Resource and Referral- Central Office	93.575	29002	$ -0-	3,199,545
Child Care Resource and Referral	93.575	28468	$ -0-	983,414
Total Child Care Resource and Referral				4,182,959
Indiana Family and Social Services Administration - United Way of Central Indiana				
FSA - Ministry Mentoring	93.575	Not applicable	$ -0-	111,343
Total Child Care Development Fund Cluster				4,294,302
Early Head Start				
Child Care Partnerships	93.600	05 HP 0006	$ -0-	1,885,841
Centers for Disease Control and Prevention - Indiana Department of Health				
Assistance Program for Chronic Disease Prevention and Control	93.945	21083	$ -0-	23,962
Total U.S. Department of Health and Human Services				6,204,105
Total Expenditures of Federal Awards				$ 6,676,719

Note 1 - Basis of Presentation

The above Schedule of Expenditures of Federal Awards (Schedule) includes the federal award activity of Early Learning Indiana, Inc. (ELI) for the year ended December 31, 2019. The information in this schedule is presented in accordance with the 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). Because the Schedule presents only a selected portion of the operations of ELI, it is not intended to and does not present the financial position, changes in net assets, or cash flows of ELI.

Note 2 - Summary of Significant Accounting Policies

Expenditures reported on the Schedule are reported on the accrual basis of accounting. Such expenditures are recognized following the cost principles contained in Uniform Guidance wherein certain types of expenditures are not allowable or are limited as to reimbursement. ELI has elected to use the 10 percent de minimis indirect cost rate allowed under the Uniform Guidance.