EARLY LEARNING INDIANA

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EARLY LEARNING INDIANA, INC.

FINANCIAL STATEMENTS

AND

SUPPLEMENTARY INFORMATION

DECEMBER 31, 2017 AND 2016

CPAs / ADVISORS

blue

EARLY LEARNING INDIANA, INC.

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blue

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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, 2017 and 2016, 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.

<u>Opinion</u>

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of ELI as of December 31, 2017 and 2016, 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.

<u>Supplementary Information</u>

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 2017 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.

<u>Other Reporting Required by Government Auditing Standards</u>

In accordance with *Government Auditing Standards*, we have also issued our report dated June 13, 2018 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 13, 2018

EARLY LEARNING INDIANA, INC.

STATEMENTS OF FINANCIAL POSITION
DECEMBER 31, 2017 AND 2016

ASSETS

	2017	2016
Cash	$ 4,891,470	$ 2,610,631
Investments	9,863,537	15,519,851
Accounts receivable, net	1,536,588	2,425,157
Contributions receivable, net	329,125	442,210
Prepaid expenses	1,214,009	793,104
Property and equipment, net	3,922,862	5,972,235
Endowment investments	4,858,854	4,124,564
Beneficial interests in assets held by others	311,041	444,149
	$ 26,927,486	$ 32,331,901

LIABILITIES AND NET ASSETS

	2017	2016
Liabilities		
Accounts payable	$ 680,619	$ 701,943
Accrued expenses	833,514	826,585
Total liabilities	1,514,133	1,528,528
Net assets		
Unrestricted		
Undesignated	7,757,505	8,128,253
Board designated - endowment	4,672,347	4,109,459
Total unrestricted	12,429,852	12,237,712
Temporarily restricted	12,546,134	18,128,294
Permanently restricted	437,367	437,367
Total net assets	25,413,353	30,803,373
	$ 26,927,486	$ 32,331,901

See accompanying notes to financial statements.

EARLY LEARNING INDIANA, INC.

STATEMENT OF ACTIVITIES
YEAR ENDED DECEMBER 31, 2017
(With Comparative Total for the Year Ended December 31, 2016)

	2017				2016
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total	Total
Revenue and support					
Fees and grants from government agencies	$ 13,231,066	$ 5,689	$ -0-	$ 13,236,755	$ 12,024,227
Program service fees, net of tuition assistance and discounts of $904,654	4,723,169	-0-	-0-	4,723,169	4,509,659
Direct public support - contributions	272,182	21,102	-0-	293,284	54,542
Direct public support - grants	33,542	313,430	-0-	346,972	2,735,262
Indirect public support - contributed by associated organizations	125	35,550	-0-	35,675	35,250
In-kind contributions	722,878	-0-	-0-	722,878	711,413
United Way allocation	204,360	204,360	-0-	408,720	391,228
United Way special grants	70,717	201,575	-0-	272,292	392,405
United Way donor designated contributions	56,188	-0-	-0-	56,188	53,467
Investment return, net	603,847	28,544	-0-	632,391	496,806
Change in value of beneficial interests in assets held by others	28,067	17,260	-0-	45,327	14,336
Other	195,649	-0-	-0-	195,649	470
Net assets released from restrictions	6,409,670	(6,409,670)	-0-	-0-	-0-
Total revenue and support	26,551,460	(5,582,160)	-0-	20,969,300	21,419,065
Expenses					
Program services					
Child care centers	12,561,619	-0-	-0-	12,561,619	11,846,727
Partnerships for Early Learners and Child Care Answers	10,570,716	-0-	-0-	10,570,716	6,593,540
Child and Adult Care Food Program	1,256,669	-0-	-0-	1,256,669	1,181,061
Fundraising	335,956	-0-	-0-	335,956	304,799
Management and general	1,634,360	-0-	-0-	1,634,360	1,570,263
Total expenses	26,359,320	-0-	-0-	26,359,320	21,496,390
Change in net assets	192,140	(5,582,160)	-0-	(5,390,020)	(77,325)
Net assets, beginning of year	12,237,712	18,128,294	437,367	30,803,373	30,880,698
Net assets, end of year	$ 12,429,852	$ 12,546,134	$ 437,367	$ 25,413,353	$ 30,803,373

See accompanying notes to financial statements.

EARLY LEARNING INDIANA, INC.

STATEMENT OF ACTIVITIES
YEAR ENDED DECEMBER 31, 2016

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Revenue and support				
Fees and grants from government agencies	$ 12,024,227	$ -0-	$ -0-	$ 12,024,227
Program service fees, net of tuition assistance and discounts of $1,129,626	4,509,659	-0-	-0-	4,509,659
Direct public support - contributions	11,527	43,015	-0-	54,542
Direct public support - grants	43,626	2,691,636	-0-	2,735,262
Indirect public support - contributed by associated organizations	250	35,000	-0-	35,250
In-kind contributions	711,413	-0-	-0-	711,413
United Way allocation	195,646	195,582	-0-	391,228
United Way special grants	99,349	293,056	-0-	392,405
United Way donor designated contributions	53,467	-0-	-0-	53,467
Investment return, net	474,919	21,887	-0-	496,806
Change in value of beneficial interests in assets held by others	14,336	-0-	-0-	14,336
Other	470	-0-	-0-	470
Net assets released from restrictions	4,476,789	(4,476,789)	-0-	-0-
Total revenue and support	22,615,678	(1,196,613)	-0-	21,419,065
Expenses				
Program services				
Child care centers	11,846,727	-0-	-0-	11,846,727
Partnerships for Early Learners and Child Care Answers	6,593,540	-0-	-0-	6,593,540
Child and Adult Care Food Program	1,181,061	-0-	-0-	1,181,061
Fundraising	304,799	-0-	-0-	304,799
Management and general	1,570,263	-0-	-0-	1,570,263
Total expenses	21,496,390	-0-	-0-	21,496,390
Change in net assets	1,119,288	(1,196,613)	-0-	(77,325)
Net assets, beginning of year	11,118,424	19,324,907	437,367	30,880,698
Net assets, end of year	$ 12,237,712	$ 18,128,294	$ 437,367	$ 30,803,373

See accompanying notes to financial statements.

EARLY LEARNING INDIANA, INC.

STATEMENT OF FUNCTIONAL EXPENSES
YEAR ENDED DECEMBER 31, 2017
(With Comparative Total for the Year Ended December 31, 2016)

	2017							2016
	Program Services				Supporting Services			
	Child Care Centers	Partnerships for Early Learners and Child Care Answers	Child and Adult Care Food Program	Total Program Services	Fundraising	Management and General	Total Expenses	Total Expenses
Salaries and wages	$ 6,708,924	$ 4,458,517	$ 86,032	$ 11,253,473	$ 256,162	$ 916,078	$ 12,425,713	$ 10,705,051
Employee health, retirement benefits and payroll taxes	1,265,569	725,715	17,193	2,008,477	43,345	156,612	2,208,434	1,845,688
Other employee related expenses	223,446	22,207	-0-	245,653	524	53,367	299,544	245,662
	8,197,939	5,206,439	103,225	13,507,603	300,031	1,126,057	14,933,691	12,796,401
Food supplies and contracts	731,807	4,396	-0-	736,203	-0-	-0-	736,203	731,926
Classroom and educational	251,221	395,083	600	646,904	-0-	-0-	646,904	511,009
Licensing and center program	687,353	10,298	175	697,826	660	2,019	700,505	609,391
Other supplies	76,651	3,996	-0-	80,647	420	262	81,329	81,967
Occupancy	988,252	299,894	8,254	1,296,400	11,901	25,069	1,333,370	1,092,037
Depreciation	327,969	-0-	-0-	327,969	-0-	69,852	397,821	342,161
Contracted services	299,059	-0-	-0-	299,059	-0-	1,144	300,203	256,722
Repairs and maintenance	255,845	8,101	206	264,152	-0-	11,612	275,764	406,954
Insurance	36,387	-0-	-0-	36,387	-0-	14,133	50,520	59,963
Public relations, marketing and advertising	48,417	205,149	34	253,600	13,721	18,074	285,395	146,877
Office operations	76,592	79,442	1,262	157,296	3,689	25,102	186,087	193,683
Professional fees	416,877	881,436	9,937	1,308,250	3,580	321,187	1,633,017	1,785,744
Grants made	-0-	3,156,249	-0-	3,156,249	-0-	-0-	3,156,249	1,035,205
Mileage, parking and travel	100,806	320,233	5,321	426,360	1,954	14,235	442,549	357,854
Other	66,444	-0-	-0-	66,444	-0-	5,614	72,058	28,815
Childcare provider pass through	-0-	-0-	1,127,655	1,127,655	-0-	-0-	1,127,655	1,059,681
Total expenses	$ 12,561,619	$ 10,570,716	$ 1,256,669	$ 24,389,004	$ 335,956	$ 1,634,360	$ 26,359,320	$ 21,496,390

See accompanying notes to financial statements.

EARLY LEARNING INDIANA, INC.

STATEMENT OF FUNCTIONAL EXPENSES
YEAR ENDED DECEMBER 31, 2016

	Program Services				Supporting Services		
	Child Care Centers	Partnerships for Early Learners and Child Care Answers	Child and Adult Care Food Program	Total Program Services	Fundraising	Management and General	Total Expenses
Salaries and wages	$ 6,215,369	$ 3,226,056	$ 83,882	$ 9,525,307	$ 235,189	$ 944,555	$ 10,705,051
Employee health, retirement benefits and payroll taxes	1,150,893	503,150	18,776	1,672,819	39,113	133,756	1,845,688
Other employee related expenses	141,862	60,333	-0-	202,195	293	43,174	245,662
	7,508,124	3,789,539	102,658	11,400,321	274,595	1,121,485	12,796,401
Food supplies and contracts	728,974	2,284	-0-	731,258	42	626	731,926
Classroom and educational	378,563	129,355	-0-	507,918	-0-	3,091	511,009
Licensing and center program	600,336	5,886	150	606,372	780	2,239	609,391
Other supplies	79,260	209	-0-	79,469	329	2,169	81,967
Occupancy	944,465	129,600	3,635	1,077,700	7,431	6,906	1,092,037
Depreciation	317,145	-0-	-0-	317,145	-0-	25,016	342,161
Contracted services	249,338	7,312	-0-	256,650	-0-	72	256,722
Repairs and maintenance	220,243	102,281	547	323,071	-0-	83,883	406,954
Insurance	51,023	-0-	-0-	51,023	-0-	8,940	59,963
Public relations, marketing and advertising	28,253	81,641	3	109,897	4,542	32,438	146,877
Office operations	69,916	100,089	1,629	171,634	4,047	18,002	193,683
Professional fees	507,461	1,022,808	6,437	1,536,706	9,753	239,285	1,785,744
Grants made	-0-	1,035,205	-0-	1,035,205	-0-	-0-	1,035,205
Mileage, parking and travel	140,400	187,077	6,321	333,798	3,280	20,776	357,854
Other	23,226	254	-0-	23,480	-0-	5,335	28,815
Childcare provider pass through	-0-	-0-	1,059,681	1,059,681	-0-	-0-	1,059,681
Total expenses	$ 11,846,727	$ 6,593,540	$ 1,181,061	$ 19,621,328	$ 304,799	$ 1,570,263	$ 21,496,390

See accompanying notes to financial statements.

EARLY LEARNING INDIANA, INC.

STATEMENTS OF CASH FLOWS
YEARS ENDED DECEMBER 31, 2017 AND 2016

		2017		2016
Operating activities				
Change in net assets	$	(5,390,020)	$	(77,325)
Adjustments to reconcile change in net assets to net cash flows from operating activities:				
Depreciation		397,821		342,161
Realized and unrealized gains on investments, net		(416,875)		(283,520)
(Gain) loss on disposal of property and equipment		(195,649)		9,000
Bad debts - accounts receivable		71,143		14,217
Contributions restricted for long-term investment in assets held by others		(1,099)		-0-
Change in value of beneficial interests in assets held by others		(45,327)		(14,336)
Change in assets and liabilities:				
Accounts receivable		817,426		(1,518,620)
Contributions receivable		113,085		110,570
Prepaid expenses		(420,905)		(743,673)
Accounts payable		54,437		210,774
Accrued expenses		6,929		210,310
Net cash flows from operating activities		(5,009,034)		(1,740,442)
Investing activities				
Capital expenditures		(285,227)		(269,588)
Proceeds from the sale of property and equipment		2,056,667		-0-
Proceeds from the sale of investments		12,769,116		7,064,310
Purchases of investments		(7,430,217)		(3,275,250)
Distributions received from beneficial interests in assets held by others		179,534		174,181
Net cash flows from investing activities		7,289,873		3,693,653
Net change in cash		2,280,839		1,953,211
Cash, beginning of year		2,610,631		657,420
Cash, end of year	$	4,891,470	$	2,610,631
Supplemental disclosure of noncash investing and financing activities				
Change in accounts payable related to capital expenditures	$	(75,761)	$	75,761

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 that ELI provides:

Child Care Centers – At the core of Early Learning Indiana are the Day Early Learning centers. Day Early Learning serves more than 1,300 children annually from six weeks to six years of age in 10 Central Indiana area locations. Our centers focus on providing the highest quality – in care, education, environments and staff. In addition, thanks to a federal grant, we also administer Early Head Start programs for children ages birth to three years of age in three Indianapolis-area high-quality centers.

Partnerships for Early Learners – As a result of a $20 million grant from Lilly Endowment in 2014, Partnerships for Early Learners was created to assist early education programs across the state reach higher levels of quality, build capacity and train and retain good teachers. In addition to operating a statewide call center that serves more than 60,000 families a year with child care referrals and evidence-based information, we provide coaching, training and outreach to more than 4,000 individual child care providers, independent research on early education and advocates for increased access to high quality early education for all Hoosiers.

Child Care Answers – Early Learning Indiana's Child Care Answers team provides child care resource, training and referral services to six counties in Central Indiana. We help families navigate child care options and provide information on program quality. We facilitate and provide access to the Child and Adult Care Food Program (CACFP) for over a hundred childcare providers in Indiana. With a focus on expanding the skills of the early childhood field, our staff provides coaching, trainings and free resources to a range of early care programs. It is the vision of Child Care Answers to ensure that the children of today and tomorrow are cared for in a professional and nurturing manner and that 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:

Unrestricted net assets – Unrestricted net assets are resources available to support operations. The only limits on the use of unrestricted 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.

Temporarily restricted net assets – Temporarily restricted net assets are resources that are restricted by a donor for use for a particular purpose or in a particular future period. ELI's unspent contributions are classified as temporarily restricted if the donor limited their use, as is the unspent appreciation of its donor-restricted endowment funds.

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 temporarily restricted to unrestricted net assets.

Permanently restricted net assets – Permanently restricted net assets are resources resulting from contributions and other inflows of assets whose use by ELI is limited by donor-imposed stipulations that neither expire by the passage of time nor can be fulfilled or otherwise removed by actions of ELI.

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, 2017 and 2016, there are no cash equivalents held outside of investment accounts.

Accounts Receivable

Accounts receivable are stated at the amount due to ELI under cost reimbursement grants and performance based service contracts where allowable costs have been incurred or the services have been performed. All amounts are due within one year. 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 $4,000 at December 31, 2017 and 2016.

Contributions Receivable

Contributions receivable consist of amounts that have been unconditionally promised to ELI. 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 $5,467 and $5,181 at December 31, 2017 and 2016, respectively.

Prepaid Expenses

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

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 unrestricted support 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 unrestricted support.

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.

Revenue and Support Recognition

Program service fees for child care are recognized in the period the child care is provided. Revenue funded by grants and contracts is recognized as ELI performs the contracted services or incurs eligible expenses under the grant agreements. 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.

Contributions are recognized as support in the period the contribution is received or the promise is made. Conditional promises to give are recognized as support in the period in which the conditions are substantially met.

Support that is not restricted by the donor is reported as an increase in unrestricted net assets. All donor-restricted support is reported as an increase in temporarily or permanently restricted net assets. When a donor restriction expires, that is, when a stipulated time restriction ends or purpose restriction is accomplished, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets released from restrictions.

In-Kind Contributions

In addition to receiving cash 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, 2017 and 2016.

Allocation of Expenses

The costs of providing the programs and services of ELI have been summarized on a functional basis. 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. 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, 2017 and 2016, 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, 2016 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

During 2016, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) No. 2016-14, *Presentation of Financial Statements of Not-for-Profit Entities (Topic 958)* that amends how a not-for-profit organization classifies its net assets, as well as the information it presents in financial statements and notes about its liquidity, financial performance, and cash flows. This new standard, which ELI is not required to adopt until its year ending December 31, 2018, requires improved presentation and disclosures to help not-for-profits provide more relevant information about their resources (and the changes in those resources) to donors, grantors, creditors, and other users. This ASU completes the first phase of a two phase project to amend not-for-profit financial reporting requirements.

During 2014, the FASB issued ASU No. 2014-09 *Revenue from Contracts with Customers (Topic 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 August 2015, the FASB further amended this guidance and issued ASU No. 2015-14, *Revenue from Contracts with Customers (Topic 606)*, which deferred the effective date for all entities by one year. These new standards, which ELI is not required to adopt until its year ending December 31, 2019, deal with the timing of reporting revenues from contracts with customers, and disclosures related thereto.

During 2016, the FASB issued ASU No. 2016-02, *Leases (Topic 842)*. This new standard, which ELI is not required to adopt until its year ending December 31, 2020, 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 these ASUs will have on its future financial statements, including related disclosures.

Reclassifications

Certain amounts from the 2016 financial statements have been reclassified herein to conform to the 2017 presentation.

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 13, 2018, which is the date the financial statements were available to be issued.

3. CONTRIBUTIONS RECEIVABLE

Contributions receivable are as follows at December 31:

	2017	2016
United Way of Central Indiana	$ 204,360	$ 195,577
Corporate, foundation and individual donors	130,232	251,814
	334,592	447,391
Less allowance for uncollectible amounts	(5,467)	(5,181)
	$ 329,125	$ 442,210

Unconditional contributions receivable are due as follows at December 31:

	2017	2016
Less than one year	$ 304,592	$ 447,391
One to five years	30,000	-0-
	334,592	447,391
Less allowance for uncollectible amounts	(5,467)	(5,181)
	$ 329,125	$ 442,210

At December 31, 2017, two contributions receivable from separate organizations comprise approximately 58% of the amounts due from corporate, foundation and individual donors, with individual percentages of 12% and 46%. At December 31, 2016, two contributions receivable from separate organizations comprised approximately 80% of the amounts due from corporate, foundation and individual donors, with individual percentages of 20% and 60%.

4. INVESTMENTS

Investments consist of the following at December 31:

	2017	2016
Cash equivalents	$ 1,952,712	$ 2,624,068
Certificates of deposit	4,710,362	11,810,534
Money market mutual funds	3,157,713	-0-
Common stock	2,058,160	1,809,707
Exchange-traded funds	737,328	619,382
Equity mutual funds	630,837	509,532
Fixed income mutual funds	455,052	488,240
Corporate bonds	417,532	439,203
U.S. Treasury notes	274,722	1,169,130
U.S. government agency bonds	42,228	42,916
Municipal bonds	221,629	51,533
Real estate investment trusts	64,116	80,170
	$ 14,722,391	$ 19,644,415

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

	2017	2016
Investments	$ 9,863,537	$ 15,519,851
Endowment investments	4,858,854	4,124,564
	$ 14,722,391	$ 19,644,415

ELI's investments are held and managed by two investment management firms.

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

	2017	2016
Interest and dividend income	$ 244,255	$ 239,570
Realized gains, net	209,454	163,658
Unrealized gains, net	207,421	119,862
Investment fees	(28,739)	(26,284)
	$ 632,391	$ 496,806

5. PROPERTY AND EQUIPMENT

Property and equipment consist of the following at December 31:

	2017	2016
Land	$ 261,544	$ 261,544
Land improvements	71,013	71,013
Lilly Center building	1,683,434	1,577,370
16th Street building	1,004,842	998,376
Furniture and equipment	324,670	413,676
Leasehold improvements	1,296,617	1,232,880
Lease deposits	1,751,809	3,942,741
Construction in progress	24,480	-0-
	6,418,409	8,497,600
Accumulated depreciation	(2,495,547)	(2,525,365)
	$ 3,922,862	$ 5,972,235

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 2018, 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 $1,469,259 and $1,525,769 at December 31, 2017 and 2016, respectively.

ELI leases another IUH child care center in Hendricks County that required ELI to fund 100% of the cost of the building (included in lease deposits above). The lease provides annual rent of $1 through May 2018. In December 2017, ELI sold the building to IUH for $2,056,667, which was equivalent to the fair market value of the building at the time of the sale, resulting in a gain on disposal of $197,694. The child care center will remain open through the lease expiration date in May 2018.

6. BENEFICIAL INTERESTS IN ASSETS HELD BY OTHERS

ELI has established four designated endowment funds with Central Indiana Community Foundation (CICF) and is the beneficiary of the funds holding those assets. The fair value of beneficial interests in assets held by others is included in the statements of financial position at $311,041 and $444,149 at December 31, 2017 and 2016, 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 $56,072 and $52,000 at December 31, 2017 and 2016, 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 three funds, with an aggregate balance of $254,969 and $392,149 at December 31, 2017 and 2016, respectively, allow funds to be withdrawn in their entirety so long as ELI continues to comply with any donor restrictions on such funds. One of these funds includes a permanently restricted balance in the amount of $107,465 at December 31, 2017 and 2016.

7. CREDIT FACILITIES

ELI had a $1,500,000 line of credit agreement with a bank, which matured on November 6, 2017. Borrowings bore interest at the London InterBank Offered Rate (LIBOR) plus 1.7% (2.34% at December 31, 2016). There were no outstanding borrowings at December 31, 2016. The line of credit agreement was secured by all business assets of ELI, excluding investments. The agreement subjected 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 and liquidity ratio.

On January 17, 2018, ELI entered into a $2,500,000 line of credit agreement with the same bank which matures on March 6, 2019. Borrowings bear interest at the London InterBank Offered Rate (LIBOR) plus 1.86%. 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.

8. NET ASSETS

Temporarily Restricted

Temporarily restricted net assets are available for the following purposes or periods at December 31:

	2017	2016
Capacity building and program support	$ 12,034,032	$ 17,535,773
Advocacy	-0-	145,066
Reserve replenishment	-0-	100,000
Specific center use	90,000	36,272
Tuition assistance	62,988	21,887
Child Care Answers	-0-	9,268
Staff training	34,147	-0-
Other	120,607	84,446
For use in future periods		
United Way of Central Indiana	204,360	195,582
	$ 12,546,134	$ 18,128,294

Permanently Restricted

Permanently restricted net assets are those net assets restricted to investment in perpetuity (endowed) with the income available to support tuition assistance.

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:

	2017	2016
Capacity building and program support	$ 5,501,741	$ 2,804,911
Advocacy	145,066	4,934
Reserve replenishment	100,000	500,000
Specific center use	198,963	114,903
Tuition assistance	115,075	390,221
Child Care Answers	12,768	1,570
Staff training	6,636	131,911
Other	133,839	118,690
Capital projects	-0-	220,000
Time restrictions expired		
United Way of Central Indiana	195,582	189,649
	$ 6,409,670	$ 4,476,789

9. ENDOWMENT

ELI's endowment consists of funds held by CICF (Note 6), and investment accounts (Note 4) established to provide support for future operations. The endowment includes both donor-restricted endowment funds and funds designated by the Board of Directors to function as endowment. As required by accounting principles generally accepted in the United States of America, net assets associated with endowment funds, including funds designated by the Board of Directors to function as endowment, are classified and reported based on the existence or absence of donor-imposed restrictions.

Interpretation of Relevant Law

The Board of Directors has interpreted the Uniform Prudent Management of Institutional Funds Act (UPMIFA) as requiring the preservation of the purchasing power of the original gift as of the gift date of the donor-restricted endowment funds absent explicit donor stipulations to the contrary. As a result of this interpretation, ELI classifies as permanently restricted net assets the original value of gifts donated to the permanent endowment.

The remaining portion of the donor-restricted endowment fund that is not classified in permanently restricted net assets is classified as temporarily restricted net assets until those amounts are appropriated for expenditure by ELI in a manner consistent with the standard of prudence prescribed by UPMIFA. In accordance with UPMIFA, 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

Return Objectives and Risk Parameters

ELI has adopted investment policies for endowment assets that attempt to provide a predictable stream of funding to 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 a greater 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 6) up to 5% of the endowment's previous year fund balance for ELI expenditures. For its own investments and for the remaining three endowment funds at CICF, ELI's goal is to be able to disburse between 4% and 5% of the portfolio's current value annually. 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:

	2017			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Board designated	$ 4,672,347	$ -0-	$ -0-	$ 4,672,347
Donor-restricted	-0-	60,181	437,367	497,548
	$ 4,672,347	$ 60,181	$ 437,367	$ 5,169,895

	2016			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Board designated	$ 4,109,459	$ -0-	$ -0-	$ 4,109,459
Donor-restricted	-0-	21,887	437,367	459,254
	$ 4,109,459	$ 21,887	$ 437,367	$ 4,568,713

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

	2017			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets, beginning of year	$ 4,109,459	$ 21,887	$ 437,367	$ 4,568,713
Contributions	247,099	-0-	-0-	247,099
Investment return, net	459,747	28,544	-0-	488,291
Change in value of beneficial interests in assets held by others	28,067	17,260	-0-	45,327
Distributions	(172,025)	(7,510)	-0-	(179,535)
Endowment net assets, end of year	$ 4,672,347	$ 60,181	$ 437,367	$ 5,169,895

	2016			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets, beginning of year	$ 3,973,359	$ -0-	$ 437,367	$ 4,410,726
Investment return, net	295,945	21,887	-0-	317,832
Change in value of beneficial interests in assets held by others	9,609	4,727	-0-	14,336
Distributions	(169,454)	(4,727)	-0-	(174,181)
Endowment net assets, end of year	$ 4,109,459	$ 21,887	$ 437,367	$ 4,568,713

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, 2017 and 2016.

- *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 6, one of ELI's four 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 three funds are not subject to these limitations and are able to be withdrawn in their entirety so long as ELI continues to comply with any donor restrictions on such funds. These three funds are 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:

	2017			
	Level 1	Level 2	Level 3	Total
Investments				
Money market mutual funds	$ -0-	$ 3,157,713	$ -0-	$ 3,157,713
Common stock	2,058,160	-0-	-0-	2,058,160
Exchange-traded funds	737,328	-0-	-0-	737,328
Equity mutual funds	630,837	-0-	-0-	630,837
Fixed income mutual funds	455,052	-0-	-0-	455,052
Corporate bonds	-0-	417,532	-0-	417,532
U.S. Treasury notes	-0-	274,722	-0-	274,722
U.S. government agency bonds	-0-	42,228	-0-	42,228
Municipal bonds	-0-	221,629	-0-	221,629
Real estate investment trusts	64,116	-0-	-0-	64,116
	$ 3,945,493	$ 4,113,824	$ -0-	8,059,317
Cash equivalents				1,952,712
Certificates of deposit				4,710,362
				$ 14,722,391
Beneficial interests in assets held by others	$ -0-	$ 254,969	$ 56,072	$ 311,041

	2016			
	Level 1	Level 2	Level 3	Total
Investments				
Common stock	$ 1,809,707	$ -0-	$ -0-	$ 1,809,707
Exchange-traded funds	619,382	-0-	-0-	619,382
Equity mutual funds	509,532	-0-	-0-	509,532
Fixed income mutual funds	488,240	-0-	-0-	488,240
Corporate bonds	-0-	439,203	-0-	439,203
U.S. Treasury notes	-0-	1,169,130	-0-	1,169,130
U.S. government agency bonds	-0-	42,916	-0-	42,916
Municipal bonds	-0-	51,533	-0-	51,533
Real estate investment trusts	80,170	-0-	-0-	80,170
	$ 3,507,031	$ 1,702,782	$ -0-	5,209,813
Cash equivalents				2,624,068
Certificates of deposit				11,810,534
				$ 19,644,415
Beneficial interests in assets held by others	$ -0-	$ 392,149	$ 52,000	$ 444,149

ELI's policy is to recognize transfers between levels as of the end of the reporting period. There were no significant transfers between levels during 2017 and 2016.

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

	2017	2016
Beginning balance	$ 52,000	$ 52,165
Change in fair value of fund	6,921	2,435
Grant and program expenses	(2,087)	(2,087)
Fees	(762)	(513)
	$ 56,072	$ 52,000

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. 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, 2017 and 2016 was $213,534 and $171,580, respectively.

12. LEASES

No rent is charged to ELI for six of the seven childcare centers it manages but does not own. For these six centers, ELI has recorded a contribution and corresponding expense for the donated rent. For a seventh facility, 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 $107,231 and $112,136 at December 31, 2017 and 2016, respectively. This lease expires in July 2025.

ELI leases various equipment under the terms of non-cancelable operating leases with expiration dates through 2019.

During 2016, ELI entered into 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 they provide 120 days' written notice, should its contract with a certain funding source terminate. The lease provides ELI one five year renewal option. Other office space is leased under annually renewable leases.

Rent expense, excluding in-kind rent, was $495,969 and $269,792 for the years ended December 31, 2017 and 2016, respectively.

Future minimum lease payments under the terms of non-cancelable operating leases at December 31, 2017 are summarized below:

Year Ending December 31,		
2018	$	471,127
2019		466,409
2020		460,005
2021		432,486
2022		108,180
Thereafter		289,200
	$	2,227,407

13. RELATED PARTY TRANSACTIONS

The Day Nursery Auxiliary (Auxiliary) is an organization engaged in various fundraising activities which has contributed property and funds as well as providing volunteer services for center activities to ELI. The Auxiliary contributed $35,675 and $35,250 to ELI in 2017 and 2016, respectively. The Auxiliary and ELI Boards of Directors share some common members, but none has a majority control.

14. CONCENTRATIONS

Concentration of Credit Risk

ELI maintains its cash (and cash equivalents included in investments) 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.

15. STATE, COUNTY, AND LOCAL FUNDING

In compliance with the Indiana State Board of Accounts' Guidelines for Examination of Entities Receiving Financial Assistance from Governmental Sources, federal, state, local and county funding must be disclosed for the current year. For the year ended December 31, 2017, ELI received the following:

Federal:		
United States Department of Health and Human Services	$	1,920,771
State:		
Indiana Department of Education		1,805,689
Indiana Department of Health		79,090
Indiana Family and Social Services Administration		4,994,037
Indiana Association for the Education of Young Children		94,025
Indiana Department of Workforce Development		92,162
		7,065,003
County/Local:		
The Nemours Foundation		173,844
United Way of Central Indiana		127,863
		301,707
	$	9,287,481

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, 2017, 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 13, 2018.

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 the entity'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 13, 2018

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, 2017. 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.

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, 2017.

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 13, 2018

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*
93.600	Early Head Start-Child Care Partnerships

Dollar threshold used to distinguish between type A and type B programs:	$750,000
Auditee qualified as low-risk auditee?	Yes

Section II - Financial Statement Findings

None Reported

Section III - Federal Award Findings and Questioned Costs

None Reported

2016-001

Financial Statement Finding

Prior Condition:

Controls surrounding the monitoring and recording of non-federal grant expenses were considered deficient.

Prior Recommendation:

We recommended that procedures surrounding the monitoring and recording of non-federal grant expenses be reviewed to ensure proper cutoff relating to non-federal grant expenses is achieved, and that grantee status reports on spending are reviewed in a timely manner.

Current Status:

ELI adopted procedures to monitor and properly record non-federal grant expense. A formal process for determining proper accounting treatment for these grants has been implemented by management as well as procedures for the timely receipt and review by management of grantee status reports.

SUPPLEMENTARY INFORMATION

EARLY LEARNING INDIANA, INC.

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
YEAR ENDED DECEMBER 31, 2017

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-	$ 1,805,689
U.S. Department of Health and Human Services				
Child Care Development Fund Cluster:				
Indiana Family and Social Services Administration				
Child Care Resource and Referral	93.575	17873	$ -0-	4,808,613
Indiana Family and Social Services Administration - United Way of Central Indiana				
FSA - Ministry Mentoring	93.575	Not applicable	$ -0-	127,863
Indiana Association for the Education of Young Children				
Indiana Non Formal CDA Project	93.596	Not applicable	$ -0-	88,844
Total Child Care Development Fund Cluster				5,025,320
Early Head Start				
Child Care Partnerships	93.600	05 HO 0006	$ -0-	1,920,771
Indiana Family and Social Services Administration				
Head Start	93.600	17873	$ -0-	24,615
Total Head Start				1,945,386
Centers for Disease Control and Prevention - The Nemours Foundation				
Early Childcare and Education Obesity Prevention Program	93.742	6 5U58DP004102-05-02	$ -0-	173,844
Indiana Department of Health - One Community One Family				
Project Launch	93.243	5H79SM061285	$ -0-	70,090
Centers for Disease Control and Prevention - Indiana Department of Health				
State Public Health Actions	93.945	6 NU58DP004806-05-01	$ -0-	7,000
Total U.S. Department of Health and Human Services				7,221,640
Corporation for National and Community Service				
Corporation for National and Community Service Cluster:				
Indiana Department of Workforce Development				
Americorps State and National	94.006	17099, C1-14234	$ -0-	92,162
Total Expenditures of Federal Awards				$ 9,119,491

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, 2017. 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 OMB Circular A-122, *Cost Principles for Non-Profit Organizations*, or 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.