

CHILD CARE, INC.

FINANCIAL STATEMENTS AND INDEPENDENT AUDITOR'S REPORT

FOR THE YEARS ENDED DECEMBER 31, 2016 AND 2015

CHILD CARE, INC.

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Independent Auditor's Report

Board of Directors
Child Care, Inc.
Wichita Falls, Texas

We have audited the accompanying financial statements of Child Care, Inc. (a nonprofit organization), which comprise the statements of financial position as of December 31, 2016 and 2015, and the related statements of activities, functional expenses, and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Child Care, Inc. as of December 31, 2016 and 2015, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

EDGIN, PARKMAN, FLEMING & FLEMING, PC

Wichita Falls, Texas
May XX, 2017

CHILD CARE, INC.

STATEMENTS OF FINANCIAL POSITION DECEMBER 31, 2016 AND 2015

ASSETS

| | <u>2016</u> | <u>2015</u> |
|-----------------------------|---------------------|---------------------|
| Cash and cash equivalents | \$ 115,984 | \$ 141,382 |
| Investments | 992,842 | 865,824 |
| Receivables: | | |
| Child care fees | 19,565 | 24,879 |
| Grants | 50,471 | 41,806 |
| United Way allocation | 17,500 | 17,500 |
| Other | 2,447 | 2,483 |
| Prepaid expenses | 21,714 | 16,614 |
| Property and equipment, net | <u>278,458</u> | <u>308,718</u> |
| Total assets | <u>\$ 1,498,981</u> | <u>\$ 1,419,206</u> |

LIABILITIES

| | | |
|-----------------------------|----------------|----------------|
| Accounts payable | \$ 25,735 | \$ 20,606 |
| Accrued payroll liabilities | 64,627 | 58,946 |
| Refundable advances | <u>31,512</u> | <u>27,572</u> |
| Total liabilities | <u>121,874</u> | <u>107,124</u> |

NET ASSETS

| | | |
|----------------------------------|---------------------|---------------------|
| Unrestricted | 1,181,080 | 1,164,758 |
| Temporarily restricted | <u>196,027</u> | <u>147,324</u> |
| Total net assets | <u>1,377,107</u> | <u>1,312,082</u> |
| Total liabilities and net assets | <u>\$ 1,498,981</u> | <u>\$ 1,419,206</u> |

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

CHILD CARE, INC.

STATEMENT OF ACTIVITIES YEAR ENDED DECEMBER 31, 2016

| | Unrestricted | Temporarily Restricted | Totals |
|--|---------------------|---------------------------|---------------------|
| Revenues and support: | | | |
| Child care fees | \$ 600,126 | \$ - | \$ 600,126 |
| Contributions | 120,037 | 55,466 | 175,503 |
| United Way allocation | 70,000 | - | 70,000 |
| Grants | 449,594 | - | 449,594 |
| Investment income | 57,517 | - | 57,517 |
| Donated facilities | 146,104 | - | 146,104 |
| Miscellaneous | 17,287 | - | 17,287 |
| | <u>1,460,665</u> | <u>55,466</u> | <u>1,516,131</u> |
| Net assets released from restrictions due to satisfaction of program restrictions | <u>6,763</u> | <u>(6,763)</u> | <u>-</u> |
| Expenses: | | | |
| Program services: | | | |
| Child care services | 1,267,878 | - | 1,267,878 |
| Supporting services: | | | |
| Management and general | 182,795 | - | 182,795 |
| Fundraising | 433 | - | 433 |
| | <u>1,451,106</u> | <u>-</u> | <u>1,451,106</u> |
| Change in net assets | 16,322 | 48,703 | 65,025 |
| Net assets at beginning of year | <u>1,164,758</u> | <u>147,324</u> | <u>1,312,082</u> |
| Net assets at end of year | <u>\$ 1,181,080</u> | <u>\$ 196,027</u> | <u>\$ 1,377,107</u> |

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

CHILD CARE, INC.

STATEMENT OF ACTIVITIES YEAR ENDED DECEMBER 31, 2015

| | Unrestricted | Temporarily Restricted | Totals |
|--|--------------|---------------------------|--------------|
| Revenues and support: | | | |
| Child care fees | \$ 585,249 | \$ - | \$ 585,249 |
| Contributions | 40,773 | 14,815 | 55,588 |
| United Way allocation | 70,183 | - | 70,183 |
| Grants | 427,917 | - | 427,917 |
| Investment income | (13,338) | - | (13,338) |
| Donated facilities | 146,104 | - | 146,104 |
| Miscellaneous | 14,183 | - | 14,183 |
| Total revenues and support | 1,271,071 | 14,815 | 1,285,886 |
| Net assets released from restrictions due to satisfaction of program restrictions | 7,085 | (7,085) | - |
| Expenses: | | | |
| Program services: | | | |
| Child care services | 1,208,324 | - | 1,208,324 |
| Supporting services: | | | |
| Management and general | 177,735 | - | 177,735 |
| Fundraising | 295 | - | 295 |
| Total expenses | 1,386,354 | - | 1,386,354 |
| Change in net assets | (108,198) | 7,730 | (100,468) |
| Net assets at beginning of year | 1,272,956 | 139,594 | 1,412,550 |
| Net assets at end of year | \$ 1,164,758 | \$ 147,324 | \$ 1,312,082 |

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

CHILD CARE, INC.

STATEMENT OF FUNCTIONAL EXPENSES YEAR ENDED DECEMBER 31, 2016

| | Program | Supporting Services | | | Total Expenses |
|------------------------------------|--------------|-------------------------|-------------|------------|-------------------|
| | Services | Management & General | Fundraising | Total | |
| Payroll and related expenses: | | | | | |
| Salaries and wages | \$ 749,293 | \$ 111,931 | \$ - | \$ 111,931 | \$ 861,224 |
| Payroll taxes | 59,038 | 8,799 | - | 8,799 | 67,837 |
| Employee benefits | 29,173 | 4,145 | - | 4,145 | 33,318 |
| Total payroll and related expenses | 837,504 | 124,875 | - | 124,875 | 962,379 |
| Automobile maintenance | 3,239 | - | - | - | 3,239 |
| Donated facilities | 146,104 | - | - | - | 146,104 |
| Dues and licensing | 2,479 | 501 | - | 501 | 2,980 |
| Educational supplies | 6,980 | - | - | - | 6,980 |
| Equipment costs and repairs | 39,468 | - | - | - | 39,468 |
| Facilities maintenance | 18,208 | - | - | - | 18,208 |
| Facilities rent | 2 | 18,360 | - | 18,360 | 18,362 |
| Fiduciary fees | - | 4,669 | - | 4,669 | 4,669 |
| Field trips and activities | 4,778 | - | - | - | 4,778 |
| Food supplies | 89,106 | - | - | - | 89,106 |
| Grants to parents | 1,261 | - | - | - | 1,261 |
| Insurance | 9,955 | 4,595 | - | 4,595 | 14,550 |
| Medical supplies | 283 | - | - | - | 283 |
| Miscellaneous | 2,977 | 1,219 | - | 1,219 | 4,196 |
| Office supplies | 4,921 | 5,730 | - | 5,730 | 10,651 |
| Operational supplies | 26,224 | 524 | - | 524 | 26,748 |
| Postage | - | 525 | 433 | 958 | 958 |
| Professional fees | - | 10,150 | - | 10,150 | 10,150 |
| Provider expenses | 5,093 | - | - | - | 5,093 |
| Staff training | 3,625 | - | - | - | 3,625 |
| Telephone | 4,224 | 3,353 | - | 3,353 | 7,577 |
| Travel | 466 | - | - | - | 466 |
| Utilities | 24,981 | 1,125 | - | 1,125 | 26,106 |
| Total expenses before depreciation | 1,231,878 | 175,626 | 433 | 176,059 | 1,407,937 |
| Depreciation | 36,000 | 7,169 | - | 7,169 | 43,169 |
| Total expenses | \$ 1,267,878 | \$ 182,795 | \$ 433 | \$ 183,228 | \$ 1,451,106 |

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

CHILD CARE, INC.

STATEMENT OF FUNCTIONAL EXPENSES YEAR ENDED DECEMBER 31, 2015

| | Program | Supporting Services | | | Total Expenses |
|------------------------------------|--------------|-------------------------|-------------|------------|-------------------|
| | Services | Management & General | Fundraising | Total | |
| Payroll and related expenses: | | | | | |
| Salaries and wages | \$ 738,563 | \$ 110,511 | \$ - | \$ 110,511 | \$ 849,074 |
| Payroll taxes | 59,240 | 8,678 | - | 8,678 | 67,918 |
| Employee benefits | 21,316 | 3,353 | - | 3,353 | 24,669 |
| Total payroll and related expenses | 819,119 | 122,542 | - | 122,542 | 941,661 |
| Automobile maintenance | 2,961 | - | - | - | 2,961 |
| Donated facilities | 146,104 | - | - | - | 146,104 |
| Dues and licensing | 1,869 | 466 | - | 466 | 2,335 |
| Educational supplies | 20,585 | - | - | - | 20,585 |
| Equipment costs and repairs | 2,044 | 605 | - | 605 | 2,649 |
| Facilities maintenance | 10,850 | - | - | - | 10,850 |
| Facilities rent | 2 | 18,240 | - | 18,240 | 18,242 |
| Fiduciary fees | - | 4,620 | - | 4,620 | 4,620 |
| Field trips and activities | 3,268 | - | - | - | 3,268 |
| Food supplies | 83,558 | - | - | - | 83,558 |
| Grants to parents | 1,635 | - | - | - | 1,635 |
| Insurance | 10,227 | 4,037 | - | 4,037 | 14,264 |
| Medical supplies | 36 | - | - | - | 36 |
| Miscellaneous | 1,795 | 138 | - | 138 | 1,933 |
| Office supplies | 5,088 | 7,134 | - | 7,134 | 12,222 |
| Operational supplies | 23,074 | 507 | - | 507 | 23,581 |
| Postage | - | 474 | 295 | 769 | 769 |
| Professional fees | - | 10,150 | - | 10,150 | 10,150 |
| Provider expenses | 8,890 | - | - | - | 8,890 |
| Staff training | 2,347 | - | - | - | 2,347 |
| Telephone | 3,273 | 3,079 | - | 3,079 | 6,352 |
| Travel | 1,066 | - | - | - | 1,066 |
| Utilities | 24,151 | 923 | - | 923 | 25,074 |
| Total expenses before depreciation | 1,171,942 | 172,915 | 295 | 173,210 | 1,345,152 |
| Depreciation | 36,382 | 4,820 | - | 4,820 | 41,202 |
| Total expenses | \$ 1,208,324 | \$ 177,735 | \$ 295 | \$ 178,030 | \$ 1,386,354 |

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

CHILD CARE, INC.

STATEMENTS OF CASH FLOWS YEARS ENDED DECEMBER 31, 2016 AND 2015

| | 2016 | 2015 |
|---|------------|--------------|
| Cash flows from operating activities: | | |
| Change in net assets | \$ 65,025 | \$ (100,468) |
| Adjustments to reconcile change in net assets to net cash provided (used) by operating activities: | | |
| Depreciation | 43,169 | 41,202 |
| Loss from disposal of property and equipment | 1,186 | - |
| Unrealized (gain) loss on investments | (45,860) | 81,185 |
| Realized (gains) losses on sales of investments | 3,598 | (49,464) |
| (Increase) decrease in operating assets: | | |
| Child care fees receivable | 5,314 | 2,817 |
| Grants receivable | (8,665) | 13,882 |
| United Way allocation receivable | - | 5,816 |
| Other receivables | 36 | (1,028) |
| Prepaid expenses | (5,100) | (2,127) |
| Increase (decrease) in operating liabilities: | | |
| Accounts payable | 5,129 | (4,651) |
| Accrued payroll liabilities | 5,681 | (231) |
| Refundable advances | 3,940 | 7,500 |
| Net cash provided (used) by operating activities | 73,453 | (5,567) |
| Cash flows from investing activities: | | |
| Purchases of investments | (316,085) | (399,768) |
| Proceeds from sales/maturities of investments | 231,329 | 333,463 |
| Payments for property and equipment | (14,095) | (1,442) |
| Net cash used by investing activities | (98,851) | (67,747) |
| Net decrease in cash and cash equivalents | (25,398) | (73,314) |
| Cash and cash equivalents at beginning of year | 141,382 | 214,696 |
| Cash and cash equivalents at end of year | \$ 115,984 | \$ 141,382 |

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

CHILD CARE, INC.

NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2016 AND 2015

NOTE 1 - NATURE OF ACTIVITIES

Child Care, Inc. (Organization) is a not-for-profit organization that was incorporated on September 21, 1961 to provide supervised day care for children of a working parent or parents, children under protective services, children with special needs, and children of unemployed welfare parents. The Organization operates five child care facilities located in Wichita Falls, Texas, all of which are licensed by the Texas Department of Family and Protective Services. The Organization also works jointly with the Wichita Falls Independent School District in administering child care to children in various other child care programs.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation

The financial statements of the Organization have been prepared on the accrual basis of accounting. Net assets and revenues, expenses, gains and losses are classified based on the existence or absence of donor-imposed restrictions. Accordingly, net assets and changes therein are classified as follows:

Unrestricted net assets include those economic resources of the Organization which are expendable for any purpose in performing the primary objectives of the Organization. They are not subject to donor-imposed restrictions. Unrestricted net assets include funds which have no donor recommendation, designation or preference.

Temporarily restricted net assets include those assets whose use by the Organization is limited by donor-imposed stipulations that expire by either passage of time or actions of the Organization.

Permanently restricted net assets include those assets required to be maintained in perpetuity due to donor-imposed restrictions. The Organization had no permanently restricted net assets at December 31, 2016 and 2015.

Revenues are reported as increases in unrestricted net assets unless use of the related assets is limited by donor-imposed restrictions. Expenses are reported as decreases in unrestricted net assets. Gains and losses on investments and other assets or liabilities are reported as increases or decreases in unrestricted net assets unless their use is restricted by explicit donor stipulation or by law. Expirations of temporarily restricted net assets are reported as reclassifications between the applicable classes of net assets.

Contributions are recognized as revenues in the period unconditional promises to give are received. Conditional promises to give are not recognized until they become unconditional, that is when the conditions on which they depend are substantially met. Contributions of assets other than cash are recorded at their estimated fair value. Contributions that are restricted by a donor are reported as increases in unrestricted net assets if the restrictions expire in the fiscal year in which the contributions are recognized. All other donor-restricted contributions are reported as increases in temporarily or permanently restricted net assets depending on the nature of the restrictions.

CHILD CARE, INC.

NOTES TO FINANCIAL STATEMENTS (CONT'D.) DECEMBER 31, 2016 AND 2015

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D.)

Cash and Cash Equivalents

The Organization considers all highly liquid investments with an initial maturity of three months or less to be cash equivalents.

Fair Value Measurements

Accounting principles generally accepted in the United States of America define fair value, establish a framework for measuring fair value, establish a fair value hierarchy based on the inputs used to measure fair value and specify disclosure requirements for fair value measurements. Furthermore, the Organization maximizes the use of observable inputs and minimizes the use of unobservable inputs by requiring that the observable inputs be used when available.

Observable inputs are inputs that market participants would use in pricing the asset or liability based on data obtained from independent sources. Unobservable inputs reflect assumptions that market participants would use in pricing the asset or liability based on the best information available in the circumstances. The fair value hierarchy is broken down into three levels based on the transparency of inputs as follows:

Level 1 – Quoted market prices are available in active markets for identical assets or liabilities as of the report date. A quoted price for an identical asset or liability in an active market provides the most reliable fair value measurement because it is directly observable to the market.

Level 2 – Pricing inputs are other than quoted prices in active markets, which are either directly or indirectly observable as of the report date. This includes investments for which quoted prices are available but that are traded less frequently and investments that are fairly valued using other securities, the parameters of which can be directly observed.

Level 3 – Includes assets or liabilities for which there is little to no pricing observability as of the report date. These are measured using management's best estimate of fair value, where the inputs into the determination of fair value are not observable and require significant management judgment or estimation.

Investments

Investments are stated at fair value. The carrying amount of certificates of deposit approximates fair value due to the short maturity of those instruments. Investments with values that are based on quoted market prices in active markets are classified within Level 1 and include active listed equities. Investments that trade in markets that are not considered to be active, but that are valued based on quoted market prices, dealer quotations or alternative pricing sources supported by observable inputs are classified within Level 2 and include corporate bonds, mutual funds, and U.S. Government Agency bonds. The Organization has no investments classified within Level 3.

CHILD CARE, INC.

NOTES TO FINANCIAL STATEMENTS (CONT'D.) DECEMBER 31, 2016 AND 2015

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D.)

Property and Equipment

The Organization follows the policy of capitalizing expenditures equal to or greater than \$1,000 for property and equipment at cost or, if acquired by gift, at the fair market value at the date of the gift. Lesser amounts are expensed. Contributions of property and equipment are reported as unrestricted contributions unless the donor has restricted the donated asset to a specific purpose. Assets donated with explicit restrictions regarding their use and contributions of cash that must be used to acquire property and equipment are reported as restricted contributions. Absent donor stipulations regarding how long those donated assets must be maintained, the Organization reports expirations of donor restrictions when the donated or acquired assets are placed in service as instructed by the donor.

Depreciation of property and equipment is computed using the straight-line method over the estimated useful lives ranging from 3 to 20 years.

Refundable Advances

Refundable advances consist of cash advances on various cost-reimbursement grants that have not yet been earned by the Organization through the incurrence of allowable costs.

Donated Facilities, Materials, and Services

The Organization receives significant use of facilities at no cost. These amounts have been included in revenues and support, and child care services expenses have been increased in a like amount in the statement of activities. In addition, volunteers have donated significant amounts of time to the Organization in various capacities which have not been reflected in the financial statements since they do not meet the accounting criteria for recognition.

Functional Allocation of Expenses

The costs of providing programs and other activities have been summarized on a functional basis in the statement of activities. Accordingly, management has allocated certain expenses among program and supporting services benefited based on specific identification of costs or other reasonable allocation methods.

Income Taxes

The Organization is a not-for-profit organization that is exempt from income taxes under Section 501(c)(3) of the Internal Revenue Code and classified by the Internal Revenue Service as other than a private foundation. With a few exceptions, the Organization's information returns for years before 2013 are no longer subject to IRS examination.

CHILD CARE, INC.

NOTES TO FINANCIAL STATEMENTS (CONT'D.) DECEMBER 31, 2016 AND 2015

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D.)

Concentrations of Credit Risk

Cash and Cash Equivalents – The Organization maintains its deposits in high credit quality financial institutions. Those balances may exceed insured limits. The Organization's deposits did not exceed the insured limits as of December 31, 2016 or December 31, 2015.

Receivables – The Organization has outstanding child care fees, grants, and other receivables at times throughout the year. Management does not consider there to be any significant credit losses associated with those receivables and, therefore, has not established an allowance for uncollectible amounts for any of those receivables.

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

Subsequent Events

The date to which events occurring after December 31, 2016, the date of the most recent balance sheet, have been evaluated for possible adjustment to the financial statements or disclosure is May XX, 2017, which is the date on which the financial statements were available to be issued.

NOTE 3 - INVESTMENTS

Investments are held and managed by an external investment management firm. Market value and unrealized appreciation (depreciation) of investments over original cost at December 31, 2016 and 2015 is summarized as follows:

December 31, 2016:

| | <u>Original Cost</u> | <u>Market Value</u> | <u>Unrealized Appreciation (Depreciation) Over Cost</u> |
|------------------------------------|--------------------------|-------------------------|---|
| Equities | \$619,360 | \$683,048 | \$63,688 |
| Corporate Bonds | 131,415 | 129,341 | (2,074) |
| U.S. Government Agency Obligations | <u>180,720</u> | <u>180,453</u> | <u>(267)</u> |
| Total Investments | <u>\$931,495</u> | <u>\$992,842</u> | <u>\$61,347</u> |

CHILD CARE, INC.

NOTES TO FINANCIAL STATEMENTS (CONT'D.) DECEMBER 31, 2016 AND 2015

NOTE 3 - INVESTMENTS (CONT'D.)

December 31, 2015:

| | <u>Original Cost</u> | <u>Market Value</u> | <u>Unrealized Appreciation (Depreciation) Over Cost</u> |
|------------------------------------|--------------------------|-------------------------|---|
| Equities | \$558,061 | \$577,720 | \$19,659 |
| Corporate Bonds | 140,981 | 137,347 | (3,634) |
| Mutual Funds – Fixed Income | 1,296 | 1,237 | (59) |
| U.S. Government Agency Obligations | <u>150,000</u> | <u>149,520</u> | <u>(480)</u> |
| Total Investments | <u>\$850,338</u> | <u>\$865,824</u> | <u>\$ 15,486</u> |

Investment income (loss) for the years ended December 31, 2016 and 2015 is summarized as follows:

| | <u>2016</u> | <u>2015</u> |
|---|---------------------|-----------------------|
| Dividend and interest income | \$15,255 | \$18,383 |
| Realized gains (losses) on sales/maturities | (3,598) | 49,464 |
| Unrealized gains (losses) on investments | <u>45,860</u> | <u>(81,185)</u> |
| Total investment income (loss) | <u>\$57,517</u> | <u>\$(13,338)</u> |

NOTE 4 - PROPERTY AND EQUIPMENT

Property and equipment for the years ended December 31, 2016 and 2015 consists of the following:

| | <u>2016</u> | <u>2015</u> |
|---|----------------------|----------------------|
| Property and equipment being depreciated: | | |
| Equipment | \$ 74,970 | \$ 66,508 |
| Building renovations | 652,262 | 652,262 |
| Vehicle | <u>29,612</u> | <u>29,612</u> |
| | 756,844 | 748,382 |
| Accumulated depreciation | <u>(478,386)</u> | <u>(439,664)</u> |
| Total | <u>\$278,458</u> | <u>\$308,718</u> |

CHILD CARE, INC.

NOTES TO FINANCIAL STATEMENTS (CONT'D.) DECEMBER 31, 2016 AND 2015

NOTE 5 - NET ASSETS

Temporarily restricted net assets are restricted for the following purposes:

| | 2016 | 2015 |
|--|------------------|------------------|
| Children's Fund expenses | \$157,027 | \$147,324 |
| Classroom items | 15,000 | - |
| Furniture and fixtures | 24,000 | - |
| Total Temporarily Restricted Net Assets | \$196,027 | \$147,324 |

NOTE 6 - NET ASSETS RELEASED FROM RESTRICTIONS

The sources of net assets released from temporary restrictions by either the passage of time or incurring expenditures satisfying the restricted purpose during the years ended December 31, 2016 and 2015 were as follows:

| | 2016 | 2015 |
|--------------------------|---------|---------|
| Children's Fund expenses | \$6,763 | \$7,085 |

NOTE 7 - DONATED FACILITIES

The Organization is allowed to use certain facilities for its day care operations without charge or for only token amounts such as \$1 per year. The following is management's estimate of the fair market value of each facility's donated use:

| Facility Name | Owner | Market Value | |
|--------------------------------------|--|------------------|------------------|
| | | 2016 | 2015 |
| Herschel Zale Child Care Center | Kiwanis Trust | \$ 46,481 | \$ 46,481 |
| Ben Donnell Center | Wichita Falls Housing Authority | 40,638 | 40,638 |
| Martin Luther King Child Care Center | City of Wichita Falls | 41,014 | 41,014 |
| Huey Learning Center | Wichita Falls Independent School District | 17,971 | 17,971 |
| Total | | \$146,104 | \$146,104 |

NOTE 8 - SIMPLE IRA PLAN

The Organization has a Simple IRA Plan ("Plan") to provide retirement and incidental benefits for its employees. Employees may contribute a portion of their annual compensation to the Plan, limited to a maximum annual amount as set periodically by the Internal Revenue Service. The Organization annually matches employee contributions dollar for dollar up to a maximum of three percent of the employee's annual wages. The Organization's matching contributions to the Plan totaled \$12,566 and \$10,214 for the years ended December 31, 2016 and 2015, respectively.

CHILD CARE, INC.

NOTES TO FINANCIAL STATEMENTS (CONT'D.) DECEMBER 31, 2016 AND 2015

NOTE 9 - OPERATING LEASES

The Organization leases its administrative office, a copier, and additional office space for program materials and training under operating leases expiring through 2018.

Minimum future rental payments under non-cancelable operating leases having remaining terms in excess of one year as of December 31, 2016 are:

| <u>Year Ended</u> | <u>Amount</u> |
|--------------------------------------|-----------------|
| 2017 | \$21,332 |
| 2018 | <u>5,542</u> |
| Total minimum future rental payments | <u>\$26,874</u> |

Rent expense, excluding that related to donated facilities, for the fiscal years ended December 31, 2016 and 2015 was \$22,526 and \$22,582, respectively.

NOTE 10 - CONCENTRATIONS

The Organization is dependent upon a small number of grants and contracts for a significant portion of its total revenue and support. For the years ended December 31, 2016 and 2015, it received 65% and 58%, respectively, of its child care revenues from one entity for government-funded child care assistance paid on-behalf of its clients. In addition, five entities accounted for substantially all of its grant revenues and United Way allocations for the years ended December 31, 2016 and 2015. Significant decreases in the amounts of these grants and contracts would have a material adverse effect on the Organization's programs and activities.