

**EL PASO CENTER FOR CHILDREN, INC.  
AND AFFILIATE**

**CONSOLIDATED FINANCIAL STATEMENTS**

**YEARS ENDED DECEMBER 31, 2017 AND 2016**

**EL PASO CENTER FOR CHILDREN, INC. AND AFFILIATE**

CONSOLIDATED FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2017 AND 2016

C O N T E N T S

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	<u>Page</u>
Independent Auditor's Report .....	1
<b>Financial Statements:</b> .....	3
Consolidated Statements of Financial Position .....	4
Consolidated Statement of Activities .....	5
Consolidated Statement of Functional Expenses .....	7
Consolidated Statements of Cash Flows .....	9
Notes to Consolidated Financial Statements .....	10
<b>Supplementary Information</b> .....	23
Consolidating Worksheets .....	24
STATE AWARDS SECTION .....	26
Independent Auditor's Report On Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed In Accordance With <i>Government Auditing Standards</i> .....	27
Independent Auditor's Report On Compliance For Each Major Program and on Internal Control over Compliance Required By The State of Texas Uniform Grant Management Standards .....	29
Schedule of Findings and Questioned Costs .....	31
Schedule of Status of Prior Year Findings .....	33
Schedule of Expenditures of State Awards .....	34
Notes to Schedule of Expenditures of State Awards .....	35

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## INDEPENDENT AUDITOR'S REPORT

To the Board of Directors of  
El Paso Center for Children, Inc.

### **Report on the Financial Statements**

We have audited the accompanying consolidated financial statements of El Paso Center for Children, Inc. (a nonprofit organization) and affiliate, which comprise the consolidated statements of financial position as of December 31, 2017 and 2016, and the related consolidated statements of activities, functional expenses, and cash flows for the years then ended, and the related notes to the consolidated financial statements.

### ***Management's Responsibility for the Financial Statements***

Management is responsible for the preparation and fair presentation of these consolidated 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 consolidated 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 consolidated financial statements are free of material misstatement. The financial statements of Southwestern Children's Home Trust (Affiliate) were not audited in accordance with *Government Auditing Standards*.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated 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 consolidated 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 consolidated 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 consolidated financial statements referred to above present fairly, in all material respects, the financial position of El Paso Center for Children, Inc. and affiliate as of December 31, 2017 and 2016, and the changes in their net assets and their cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

### ***Other Matters***

#### ***Other Information***

Our audit was conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The consolidating worksheet on page 24 is presented for purposes of additional analysis and is not a required part of the consolidated financial statements. The accompanying schedule of expenditures of state awards as required by the *State of Texas Uniform Grant Management Standards*, is presented for the purpose of additional analysis and is not a required part of the consolidated 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 consolidated financial statements. The information has been subjected to the auditing procedures applied in the audit of the consolidated financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the consolidated financial statements or to the consolidated 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 consolidated financial statements as a whole.

### ***Other Reporting Required by Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report dated May 23, 2018, on our consideration of El Paso Center for Children, Inc.'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 solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of El Paso Center for Children's 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 El Paso Center for Children, Inc.'s internal control over financial reporting and compliance.

*Gilson Ruddock Patterson LLC*

El Paso, Texas  
May 23, 2018

**FINANCIAL SECTION**

**EL PASO CENTER FOR CHILDREN, INC. AND AFFILIATE**

**CONSOLIDATED STATEMENTS OF FINANCIAL POSITION**

DECEMBER 31, 2017 AND 2016

ASSETS	<u>2017</u>	<u>2016</u>
Cash and cash equivalents	\$ 427,976	\$ 389,180
Investments	1,861,926	1,945,442
Grants and fees receivable	879,438	458,716
Unconditional promise to give	30,360	33,000
Prepaid expenses and other receivables	17,148	15,396
Net investment in sales-type lease	205,438	217,238
Land, building and equipment, net	791,311	712,179
Total assets	<u>\$ 4,213,597</u>	<u>\$ 3,771,151</u>
 LIABILITIES AND NET ASSETS		
Liabilities		
Accounts payable	\$ 454,346	\$ 265,738
Accrued payroll, vacation and related expenses	97,472	73,115
Total liabilities	<u>551,818</u>	<u>338,853</u>
 Net assets		
Unrestricted	3,581,419	3,349,298
Temporarily restricted	30,360	33,000
Permanently restricted	50,000	50,000
Total net assets	<u>3,661,779</u>	<u>3,432,298</u>
Total liabilities and net assets	<u>\$ 4,213,597</u>	<u>\$ 3,771,151</u>

See accompanying notes to consolidated financial statements.

**EL PASO CENTER FOR CHILDREN, INC. AND AFFILIATE**

CONSOLIDATED STATEMENT OF ACTIVITIES

YEAR ENDED DECEMBER 31, 2017

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Support and Revenues				
Public support:				
State grants and fees	\$ 3,003,912	\$ -	\$ -	\$ 3,003,912
Federal grants and fees	473,096	-	-	473,096
Contributions	254,128	30,360	-	284,488
Donated supplies, food and services	16,875	-	-	16,875
Rental income	22,050	-	-	22,050
Miscellaneous	24,333	-	-	24,333
	<u>3,794,394</u>	<u>30,360</u>	<u>-</u>	<u>3,824,754</u>
Revenues:				
Interest, dividends and royalties	103,825	-	-	103,825
Unrealized gain (loss) on investments	206,832	-	-	206,832
Realized gain (loss) on investments	42,539	-	-	42,539
	<u>353,196</u>	<u>-</u>	<u>-</u>	<u>353,196</u>
Total support and revenues	4,147,590	30,360	-	4,177,950
Net assets released from restrictions	<u>33,000</u>	<u>(33,000)</u>	<u>-</u>	<u>-</u>
Total public support and revenues	<u>4,180,590</u>	<u>(2,640)</u>	<u>-</u>	<u>4,177,950</u>
Expenses				
Program services	3,086,399	-	-	3,086,399
Management and general	853,838	-	-	853,838
Fundraising	8,232	-	-	8,232
Total expenses	<u>3,948,469</u>	<u>-</u>	<u>-</u>	<u>3,948,469</u>
Change in net assets	232,121	(2,640)	-	229,481
Net assets, beginning of the year	<u>3,349,298</u>	<u>33,000</u>	<u>50,000</u>	<u>3,432,298</u>
Net assets, end of year	<u>\$ 3,581,419</u>	<u>\$ 30,360</u>	<u>\$ 50,000</u>	<u>\$ 3,661,779</u>

See accompanying notes to consolidated financial statements.

**EL PASO CENTER FOR CHILDREN, INC. AND AFFILIATE**

CONSOLIDATED STATEMENT OF ACTIVITIES

YEAR ENDED DECEMBER 31, 2016

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Support and Revenues				
Public support:				
State grants and fees	\$ 2,941,810	\$ -	\$ -	\$ 2,941,810
Federal grants and fees	510,456	-	-	510,456
Contributions	159,345	33,000	-	192,345
Donated supplies, food and services	14,372	-	-	14,372
Miscellaneous	16,556	-	-	16,556
	<u>3,642,539</u>	<u>33,000</u>	<u>-</u>	<u>3,675,539</u>
Revenues:				
Interest, dividends and royalties	103,225	-	-	103,225
Unrealized gain (loss) on investments	122,744	-	-	122,744
Realized gain(loss) on investments	(26,914)	-	-	(26,914)
	<u>199,055</u>	<u>-</u>	<u>-</u>	<u>199,055</u>
Total support and revenues	3,841,594	33,000	-	3,874,594
Net assets released from restrictions	<u>33,000</u>	<u>(33,000)</u>	<u>-</u>	<u>-</u>
Total public support and revenues	<u>3,874,594</u>	<u>-</u>	<u>-</u>	<u>3,874,594</u>
Expenses				
Program services	3,130,265	-	-	3,130,265
Management and general	676,894	-	-	676,894
Fundraising	11,150	-	-	11,150
Total expenses	<u>3,818,309</u>	<u>-</u>	<u>-</u>	<u>3,818,309</u>
Change in net assets	56,285	-	-	56,285
Net assets, beginning of the year	<u>3,293,013</u>	<u>33,000</u>	<u>50,000</u>	<u>3,376,013</u>
Net assets, end of year	<u>\$ 3,349,298</u>	<u>\$ 33,000</u>	<u>\$ 50,000</u>	<u>\$ 3,432,298</u>

See accompanying notes to consolidated financial statements.



**EL PASO CENTER FOR CHILDREN, INC. AND AFFILIATE**

**CONSOLIDATED STATEMENT OF FUNCTIONAL EXPENSES**

YEAR ENDED DECEMBER 31, 2017

	Program Services										
	Center of Hope	Therapeutic Homes	Specialized Foster Care	Emergency Shelter	Services to At-Risk Youth	Street Outreach	El Paso HOPES	Total Program Services	Management and General	Fundraising	Total
Salaries and wages	\$ -	\$ 144,503	\$ 50,415	\$ 263,799	\$ 341,282	\$ 14,431	\$ 23,344	\$ 837,774	\$ 300,289	\$ -	\$ 1,138,063
Payroll Taxes	-	15,619	5,949	32,228	37,958	2,239	2,670	96,663	27,765	-	124,428
Employee benefits	-	10,920	1,320	11,067	30,993	-	1,271	55,571	24,791	-	80,362
Total salaries and related expenses	-	171,042	57,684	307,094	410,233	16,670	27,285	990,008	352,845	-	1,342,853
Professional fees	-	36,456	4,383	26,008	36,924	1,108	16,059	120,938	61,618	-	182,556
Foster parent payments	-	347,962	16,422	-	-	-	-	364,384	-	-	364,384
Supplies	2,394	6,903	291	35,934	17,273	3,825	-	66,620	40,524	2,397	109,541
Occupancy	8,631	9,646	1,558	17,722	13,706	722	-	51,985	321,068	-	373,053
Travel and conference	-	5,762	13,444	3,227	9,042	522	2,454	34,451	254	1,742	36,447
Specific assistance	-	1,457	-	8,000	-	20	-	9,477	-	-	9,477
Client transportation	-	935	-	11,366	-	588	-	12,889	-	-	12,889
Grants to subrecipients	-	-	-	-	-	3,579	1,382,750	1,386,329	-	-	1,386,329
Maintenance allocation	10,886	3,117	680	8,611	5,705	154	-	29,153	27,746	-	56,899
Miscellaneous	-	1,823	262	8,424	2,422	157	3,236	16,324	5,335	4,093	25,752
Total expenses before depreciation	21,911	585,103	94,724	426,386	495,305	27,345	1,431,784	3,082,558	809,390	8,232	3,900,180
Direct depreciation	1,028	891	155	1,248	464	55	-	3,841	44,448	-	48,289
Total depreciation	1,028	891	-	1,248	464	-	-	3,841	44,448	-	48,289
Total expenses	\$ 22,939	\$ 585,994	\$ 94,724	\$ 427,634	\$ 495,769	\$ 27,345	\$ 1,431,784	\$ 3,086,399	\$ 853,838	\$ 8,232	\$ 3,948,469

See accompanying notes to consolidated financial statements.

**EL PASO CENTER FOR CHILDREN, INC. AND AFFILIATE**

**CONSOLIDATED STATEMENT OF FUNCTIONAL EXPENSES**

YEAR ENDED DECEMBER 31, 2016

	Program Services								
	Center of Hope	Therapeutic Homes	Emergency Shelter	Services to At-Risk Youth	El Paso HOPES	Total Program Services	Management and General	Fundraising	Total
Salaries and wages	\$ 91,226	\$ 152,509	\$ 203,756	\$ 326,132	\$ 3,305	\$ 776,928	\$ 343,024	\$ -	\$ 1,119,952
Salaries and wages-maintenance	2,905	1,185	4,310	2,765	-	11,165	19,274	-	30,439
Payroll Taxes	9,637	14,230	22,669	31,321	314	78,171	30,730	-	108,901
Payroll Taxes-maintenance	250	114	415	460	-	1,239	1,691	-	2,930
Employee benefits	6,443	25,411	18,928	62,862	421	114,065	56,803	-	170,868
Employee benefits-maintenance	840	370	1,347	848	-	3,405	6,110	-	9,515
<b>Total salaries and related expenses</b>	<b>111,301</b>	<b>193,819</b>	<b>251,425</b>	<b>424,388</b>	<b>4,040</b>	<b>984,973</b>	<b>457,632</b>	<b>-</b>	<b>1,442,605</b>
Professional fees	77,013	57,430	19,973	23,559	12,923	190,898	74,319	10,938	276,155
Foster parent payments	-	308,432	-	-	-	308,432	-	-	308,432
Supplies	17,251	1,871	29,660	19,146	-	67,928	19,816	212	87,956
Occupancy	23,411	7,573	15,942	41,507	-	88,433	65,093	-	153,526
Travel and conference	3,965	5,969	2,115	14,654	970	27,673	3,179	-	30,852
Specific assistance	10,006	909	6,855	-	-	17,770	-	-	17,770
Client transportation	-	-	9,500	-	-	9,500	-	-	9,500
Grants to subrecipients	-	-	-	-	1,412,698	1,412,698	-	-	1,412,698
Maintenance allocation	1,756	790	2,872	1,665	-	7,083	13,204	-	20,287
Miscellaneous	1,641	6,560	1,821	3,810	1,045	14,877	675	-	15,552
<b>Total expenses before depreciation</b>	<b>246,344</b>	<b>583,353</b>	<b>340,163</b>	<b>528,729</b>	<b>1,431,676</b>	<b>3,130,265</b>	<b>633,918</b>	<b>11,150</b>	<b>3,775,333</b>
Direct depreciation	-	-	-	-	-	-	42,976	-	42,976
<b>Total depreciation</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>42,976</b>	<b>-</b>	<b>42,976</b>
<b>Total expenses</b>	<b>\$ 246,344</b>	<b>\$ 583,353</b>	<b>\$ 340,163</b>	<b>\$ 528,729</b>	<b>\$ 1,431,676</b>	<b>\$ 3,130,265</b>	<b>\$ 676,894</b>	<b>\$ 11,150</b>	<b>\$ 3,818,309</b>

See accompanying notes to consolidated financial statements.

**EL PASO CENTER FOR CHILDREN, INC. AND AFFILIATE**

CONSOLIDATED STATEMENTS OF CASH FLOWS

FOR THE YEARS ENDED DECEMBER 31, 2017 AND 2016

	<u>2017</u>	<u>2016</u>
Cash flows from operating activities		
Change in net assets	\$ 229,481	\$ 56,285
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation	48,289	42,976
Amortization	11,800	11,051
Unrealized (gain) loss on investments	(206,832)	(122,744)
Realized (gain) loss on sale of investments	(42,539)	26,914
(Increase) decrease in operating assets and liabilities:		
Grants and fees receivable	(418,082)	64,049
Prepaid expenses and other receivables	(1,752)	(2,170)
Accounts payable	188,608	105,542
Accrued payroll, vacation and related expenses	24,357	(22,949)
	<u>(166,670)</u>	<u>158,954</u>
Net cash flows provided by (used in) operating activities		
Cash flows from (used by) investing activities:		
Purchase of property and equipment	(127,421)	-
Purchase of investments	(880,045)	(339,522)
Proceeds from sale of investments	1,212,932	349,802
	<u>205,466</u>	<u>10,280</u>
Net cash flows provided by investing activities		
Net increase (decrease) in cash	38,796	169,234
Beginning cash and cash equivalents	<u>389,180</u>	<u>219,946</u>
Ending cash and cash equivalents	<u>\$ 427,976</u>	<u>\$ 389,180</u>

See accompanying notes to consolidated financial statements.

**EL PASO CENTER FOR CHILDREN, INC. AND AFFILIATE**

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEARS ENDED DECEMBER 31, 2017 AND 2016

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**1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

**Organization and Nature of Activities** - El Paso Center for Children, Inc. (the Center) is a nonprofit agency organized for the purpose of providing homes for dependent and neglected children and an array of support services for emotionally disturbed children, adolescents, and their families. The Center operates entirely in the County of El Paso.

The Center offers the following programs:

*Center of Hope* - The Center serves youth and adult victims of human trafficking. This program ended in November 2016.

*Therapeutic Homes and Specialized Foster Care*- The Center offers therapeutic foster care for children and adolescents with moderate to severe emotional and behavioral disturbances and survivors of human trafficking.

*Emergency Shelter and Street Outreach*- The Center serves ten- to 17-year-old runaway and homeless youths and their families.

*Services to At-Risk Youth* - The Center serves youth and families that are at risk of abuse, delinquency, or family separation.

*El Paso HOPES* - The Center serves families with young children to help them create a safe and healthy environment for children to grow and thrive.

**Principles of Consolidation** - The consolidated financial statements include the financial position, statement of activities, functional expenses and cash flows of the Center and the affiliate, Southwestern Children's Home Trust.

The Southwestern Children's Home Trust (the Trust) is a separate nonprofit corporation, which provides El Paso Center for Children, Inc. with financial support. All material inter-company accounts and transactions have been eliminated in the consolidated financial statements.

(Continued)

EL PASO CENTER FOR CHILDREN, INC. AND AFFILIATE

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEARS ENDED DECEMBER 31, 2017 AND 2016

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1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

**Basis of Accounting Presentation** - The accompanying consolidated financial statements are presented on the accrual basis of accounting and follow the recommendations of the Financial Accounting Standards Board. Net assets, revenues, and expenses, and gains and losses are classified based on the existence or absence of donor-imposed restrictions. As required by the *Presentation of Financial Statements of the FASB Accounting Standards Codification (ASC)*, the Center is required to report information regarding its financial position and activities according to three classes of net assets; unrestricted net assets, temporarily restricted net assets, and permanently restricted net assets.

*Unrestricted Net Assets* - Unrestricted net assets represent resources that are not subject to donor-imposed stipulations and over which the Board of Directors has discretionary control to use in carrying on the operations of the Center. Net assets received and expended within the reporting period are reported in the Statement of Activities as unrestricted support or revenue.

*Temporarily Restricted Net Assets* - Temporarily restricted net assets represent resources that are subject to donor-imposed stipulations that may or will be met, either by actions of the Center and/or the passage of time. They include contributions received to support program expenses for the next fiscal year and contributions for specific purposes. When a restriction expires, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the Statement of Activities as net assets released from restrictions. Temporarily restricted net asset whose restriction are satisfied in the same year of the receipt are treated as unrestricted net assets.

*Permanently Restricted Net Assets* - Permanently restricted net assets represent donor-imposed stipulations that neither expire by passage of time nor can be fulfilled or otherwise removed by actions of the Center.

Operating revenues and expenses are directly related to providing services to children and their families.

**Fair Value Measurement** - The Center utilizes fair value measurement for financial assets and financial liabilities on a recurring basis and for non-financial items that are measured at fair value on a non-recurring basis. Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The Center follows 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 measurements) and the lowest priority to measurements involving significant unobservable inputs (Level 3 measurements). The three levels of the fair value hierarchy are as follows:

*Level 1:* Fair value is determined by using quoted prices for identical assets or liabilities in active markets.

(Continued)

EL PASO CENTER FOR CHILDREN, INC. AND AFFILIATE

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEARS ENDED DECEMBER 31, 2017 AND 2016

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1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

*Level 2:* Fair value is determined by using other the quoted prices that are observable for the asset or liability (e.g., quoted prices for identical assets or liabilities in inactive markets, quoted prices for similar assets or liabilities in active markets, observable inputs other than quoted prices, and inputs derived principally from or corroborated by observable market data by correlation or other means).

*Level 3:* Fair value is determined by using inputs based on management assumptions that are not directly observable.

The valuation hierarchy is based upon the transparency of inputs to the valuation of an asset or liability as of the measurement date. A financial instrument's categorization within the hierarchy is based upon the lowest level of input that is significant to the fair value measurement. Estimates of fair values are subjective in nature and involve uncertainties and matters of significant judgement and, therefore, cannot be determined with precision. Changes in assumptions could affect the fair value estimates.

**Disclosures about the Fair Value of Financial Instruments** - Due to the short-term nature of the accounts, certain assets and liabilities such as cash and cash equivalents, grants and fees receivable, unconditional promises to give, prepaid assets, accounts payables, and accrued liabilities are carried at values that management believes approximate fair value.

**Analysis for Impairment** - The Center reviews its long-lived assets for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Management is not aware of any events or changes in circumstances that would require impairment testing during 2017.

**Use of 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 reported amounts of assets and liabilities and disclosure of contingent asset and liabilities at the date of the financial statements and reported amounts of revenues and expenses during the reported period. Accordingly, actual results could differ from those estimates.

**Cash and Cash Equivalents** - The Center considers all highly liquid investments available for current use with an initial maturity of three months or less to be cash equivalents.

**Investments** - Investments in marketable securities with readily determinable fair values are reported at fair value. Unrealized gains and losses resulting from the adjustment to fair value are included in the statement of activities and changes in net assets. The fair value of marketable securities is subject to fluctuations based on market conditions such as changing interest rates and rising and falling stock prices.

**Grants Receivable** - Allowable grant program expenses in excess of grant funds received are recorded as grants receivable.

(Continued)

EL PASO CENTER FOR CHILDREN, INC. AND AFFILIATE

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEARS ENDED DECEMBER 31, 2017 AND 2016

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1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

**Unconditional Promises to Give** - The Center records unconditional promises to give when it receives in writing, a promise to give.

**Allowance for Doubtful Accounts** - No allowance for bad debts is maintained as accounts are written off when they are determined to be uncollectible. Generally accepted accounting principles require that an allowance for uncollectible accounts be maintained in lieu of the direct charge-off method. However, in this case management has determined that such an allowance would be immaterial with respect to the financial statements taken as a whole.

**Sales-type lease** - The lease is considered a real estate sale-type lease and is accounted for under the installment method, whereby gain is deferred until payment is received. Unearned income on the lease is accounted for using the interest method.

**Property and Equipment** - Property and equipment are recorded at acquisition cost or, if donated, at the estimated acquisition value at the time of donation. The policy of the Center is to capitalize assets with a fair market value in excess of \$5,000 and with an expected useful life of greater than one year. Depreciation is computed by using the straight-line basis over the estimated useful lives of the assets. When assets are retired or otherwise disposed of, the cost and related accumulated depreciation are removed from the accounts, and any gain or loss is recognized as revenue or expense for the period. The cost of maintenance and repairs is charged to expense as incurred; significant renewals and betterments are capitalized.

The Center reports gifts of property and equipment as unrestricted support unless explicit donor stipulations specify how the donated assets must be used.

Property and equipment acquired by the Center are considered to be owned by the Center. However, federal and state funding sources may maintain equitable interest in the property purchased with grant monies as well as the right to determine the use of any proceeds from the sale of these assets.

**Accrued Leave** - Employees of the Center receive paid vacation days depending on length of service and other factors. Upon termination the employee is paid for vacation leave accrued but not used. The vacation accrual can be reasonably estimated, and accordingly, a liability for the year ended December 31, 2017 and 2016 was recorded in the accompanying consolidated financial statements in the amount of \$27,705 and \$23,418, respectively.

**Support and Revenue Recognition** - The Center's revenue comes primarily from federal and state grants and fees and contributions.

*Grants* - Grants can be either contribution or exchange transactions. Grants that are exchange transactions recognize revenue when the expenses are incurred or when matches have been made in accordance with grant provisions.

(Continued)

EL PASO CENTER FOR CHILDREN, INC. AND AFFILIATE

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEARS ENDED DECEMBER 31, 2017 AND 2016

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**1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

*Contributions* - The Center recognizes contributions when received or when a pledge is made. All contributions are considered to be available for unrestricted use unless specifically restricted by the donor. Amounts received that are restricted by the donor for future periods or donor-restricted for specific purposes are reported as temporarily restricted or permanently restricted support, depending on the nature of the restrictions, that increases those net assets. When a donor-stipulated time restriction ends or a purpose restriction is accomplished, the restricted net assets are reclassified to unrestricted net assets and are reported in the Statement of Activities as net assets released from restriction. If a restriction is fulfilled in the same time period in which the contribution is received, the contributions is reported as unrestricted.

*Donated supplies, food, & services* - Contributed goods are recorded at their estimated fair value at the date of receipt. Donated services, which are defined as donations of services that would have to be purchased in order for the Center to operate if not donated, are recorded as revenue and expense in the Statement of Activities. The value of donated services included in the consolidated financial statements and the corresponding program expenses for the years ended December 31, 2017 and 2016 were \$10,405 and \$4,501, respectively. The expenses related to donated supplies, food, and services are excluded from billing to granting agencies.

*Fees* - Fees and contract services are recognized when the service is performed.

**Income Taxes** - The Center and the Trust are nonprofit organizations exempt from federal income taxes under Section 501(c)(3) of the Internal Revenue Code. Although they would be subject to tax on income unrelated to their exempt purposes. The Trust did not have any unrelated business income in 2017 and 2016.

During the years ended December 31, 2017 and 2016, the Center engaged in unrelated business activities related to accounting fees the organization charged other nonprofit entities. However, the accompanying financial statements do not reflect a provision or liability for Federal or state income taxes since there was no taxable income generated after related deductions.

The IRS Forms 990, *Return of Organization Exempt from Income Tax*, for the years ending 2014, 2015 and 2016 are subject to examination by the IRS, generally for three years after they were filed.

**Uncertain Tax Positions** - The Center has adopted FASB ASC 740-10-25, Accounting for Uncertainty in Income Taxes. The Center will record a liability for uncertain tax positions when it is more likely than not that a tax position would not be sustained if examined by the taxing authority. The Center continually evaluates expiring statutes of limitations, audits, proposed settlements, changes in tax law and new authoritative rulings. The Center's evaluation on December 31, 2017 revealed no uncertain tax positions that would have a material impact on the financial statements. The Center does not believe that any reasonably possible changes will occur within the next twelve months that will have a material impact on the financial statements.

(Continued)



EL PASO CENTER FOR CHILDREN, INC. AND AFFILIATE

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEARS ENDED DECEMBER 31, 2017 AND 2016

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

**Advertising** - The Center expenses all advertising costs as incurred since amounts are not expected to provide future economic benefits. The total amount of advertising costs charged to expense for the years ended December 31, 2017 and 2016 were \$5,336 and \$3,000, respectively.

**Functional Expenses** - Direct expenses of a particular program are charged to that program while indirect expenses are allocated to the various programs based upon the two indirect cost rate allocations adopted by the Center.

1. Maintenance: Maintenance costs are first allocated to each direct service and administration based on the percentage of building square footage that each program occupies.
2. Administration: Administrative costs are then allocated to each direct service program based on the percentage of total allowable direct costs (including maintenance) that each program represents.

2. INVESTMENTS

The investments held by the Trust at December 31, 2017 and 2016, are as follows:

	2017		
	Fair Value	Cost	Unrealized Gain(Loss)
Mutual Funds	\$ 1,774,833	\$ 1,584,978	\$ 189,855
Mineral Interest	87,093	3	87,090
<b>Total</b>	<b>\$ 1,861,926</b>	<b>\$ 1,584,981</b>	<b>\$ 276,945</b>
	2016		
	Fair Value	Cost	Unrealized Gain(Loss)
Mutual Funds	\$ 1,864,530	\$ 1,875,490	\$ (10,960)
Mineral Interest	80,912	3	80,909
<b>Total</b>	<b>\$ 1,945,442</b>	<b>\$ 1,875,493</b>	<b>\$ 69,949</b>

The Organization invests in various investment securities. Investment securities are exposed to risks such as interest rate, market, and credit risks.

(Continued)

**EL PASO CENTER FOR CHILDREN, INC. AND AFFILIATE**

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEARS ENDED DECEMBER 31, 2017 AND 2016

**3. FAIR VALUE MEASUREMENTS**

Fair value of assets measured on a recurring basis at December 31, 2017 are as follows:

	Fair Value Measurements at Reporting Date Using			
	Fair Value	Quoted Prices in Active Markets for Identical Assets	Significant Other Observable Inputs	Significant Unobservable Inputs
		(Level 1)	(Level 2)	(Level 3)
Mutual funds	\$ 1,774,833	\$ 1,774,833	\$ -	\$ -
Mineral interest	87,093	-	-	87,093
<b>Total</b>	<b>\$ 1,861,926</b>	<b>\$ 1,774,833</b>	<b>\$ -</b>	<b>\$ 87,093</b>

Fair value of assets measured on a recurring basis at December 31, 2016 are as follows:

	Fair Value Measurements at Reporting Date Using			
	Fair Value	Quoted Prices in Active Markets for Identical Assets	Significant Other Observable Inputs	Significant Unobservable Inputs
		(Level 1)	(Level 2)	(Level 3)
Mutual funds	\$ 1,864,530	\$ 1,864,530	\$ -	\$ -
Mineral interest	80,912	-	-	80,912
<b>Total</b>	<b>\$ 1,945,442</b>	<b>\$ 1,864,530</b>	<b>\$ -</b>	<b>\$ 80,912</b>

The FASB ASC Fair Value Measurement topic establishes a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. This hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurement) and the lowest priority to measurements involving significant unobservable inputs (Level 3 measurements).

The Center uses appropriate valuation techniques based on the available inputs to measure the fair value of its investments. Mutual funds are valued at the net asset value (NAV) of shares held by the Trust at year end. Mutual funds are classified as Level 1. The value of Investment in mineral interest is based on a cash flow analysis over a multiyear period. Mineral interest are classified as Level 3.

(Continued)

**EL PASO CENTER FOR CHILDREN, INC. AND AFFILIATE**

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEARS ENDED DECEMBER 31, 2017 AND 2016

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**3. FAIR VALUE MEASUREMENTS (Continued)**

Asset measured at fair value on a recurring basis using significant unobservable inputs (Level 3):

	<u>Mineral interest</u>
January 1, 2016	\$ 28,155
Unrealized gain	<u>52,757</u>
December 31, 2016	<u>\$ 80,912</u>
January 1, 2017	\$ 80,912
Unrealized gain	<u>6,181</u>
December 31, 2017	<u>\$ 87,093</u>

See subsequent event note 16.

**4. UNCONDITIONAL PROMISE TO GIVE**

Unconditional promises to give as of December 31, 2017 and 2016, are temporarily restricted net assets. These unconditional promises to give are to be received by the Center during the next fiscal year and are deemed to be fully collectible by management.

	<u>2017</u>	<u>2016</u>
United Way	<u>\$ 30,360</u>	<u>\$ 33,000</u>
Receivable in current year	<u>\$ 30,360</u>	<u>\$ 33,000</u>

(Continued)

**EL PASO CENTER FOR CHILDREN, INC. AND AFFILIATE**

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEARS ENDED DECEMBER 31, 2017 AND 2016

**5. SALES-TYPE LEASE RECEIVABLE**

On December 22, 2003 the Center, as lessor, signed a lease agreement with the Young Women's Christian Association of El Paso, Texas for the main building and the land it occupies at 3700 Altura, El Paso, Texas, for an initial period of twenty-two years with an option on the part of the lessee to extend the lease for a period of three years for a total of twenty-five years. Certain provisions of the building lease allow the lessee to purchase the building for \$1 at the end of the 25-year lease term. The Center has recorded the lease as a real estate sale.

	<u>2017</u>	<u>2016</u>
Present value of minimum lease payments	\$ 376,504	\$ 399,233
Less deferred gain	<u>(171,066)</u>	<u>(181,995)</u>
Net book value of real estate assets sold	<u>\$ 205,438</u>	<u>\$ 217,238</u>

The composition of the net investment in sales-type lease at December 31, 2017 and 2016 is as follows:

	<u>2017</u>	<u>2016</u>
Total minimum lease payments to be received	\$ 528,000	\$ 576,000
Less: Amount representing interest	<u>(151,496)</u>	<u>(176,767)</u>
Present value of future minimum lease payments	376,504	399,233
Deferred gain	<u>(171,066)</u>	<u>(181,995)</u>
Net investment in sales-type lease	<u>\$ 205,438</u>	<u>\$ 217,238</u>

At December 31, 2017 future minimum lease payments receivable under the lease are as follows:

<u>Year Ended December 31,</u>	<u>Amount</u>
2018	\$ 48,000
2019	48,000
2020	48,000
2021	48,000
2022	48,000
2023-2027	240,000
2028	<u>48,000</u>
Future lease payments	<u>\$ 528,000</u>

The portion of interest income recognized in the statement of activities amounted to \$25,271 and \$26,707 for the years ended December 31, 2017 and 2016, respectively.

(Continued)

**EL PASO CENTER FOR CHILDREN, INC. AND AFFILIATE**

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEARS ENDED DECEMBER 31, 2017 AND 2016

**6. BUILDING AND EQUIPMENT**

The following is a summary of the changes in building and equipment for the year ended December 31, 2017:

Asset Cost	Balance December 31, 2016	Additions	Disposals and Reclassifications	Balance December 31, 2017	Estimated Useful Lives
Land	\$ 258,581	\$ -	\$ -	\$ 258,581	
Building and improvements	1,648,867	15,713	-	1,664,580	
Furniture, fixtures and equipment	54,809	111,708	-	166,517	5-10 years
	1,962,257	127,421	-	2,089,678	
Less accumulated depreciation	<u>(1,250,078)</u>	<u>(48,289)</u>	-	<u>(1,298,367)</u>	
Building and equipment, net of depreciation	<u>\$ 712,179</u>	<u>\$ 79,132</u>	<u>\$ -</u>	<u>\$ 791,311</u>	

Depreciation expense recorded for 2017 and 2016 was \$48,289 and \$42,976, respectively.

**7. TEMPORARILY RESTRICTED NET ASSETS AND NET ASSETS RELEASED FROM RESTRICTIONS**

Temporarily restricted net assets at December 31, 2017 are available for the following purposes:

	2017	2016
Emergency Shelter	\$ 23,460	\$ 25,500
Therapeutic Homes	<u>6,900</u>	<u>7,500</u>
	<u>\$ 30,360</u>	<u>\$ 33,000</u>

Net assets released from restrictions during 2017 either by incurring expenses satisfying the restricted purpose or due to expiration of time is as follows:

	2017	2016
Emergency Shelter	\$ 25,500	\$ 25,500
Therapeutic Homes	<u>7,500</u>	<u>7,500</u>
	<u>\$ 33,000</u>	<u>\$ 33,000</u>

(Continued)

**EL PASO CENTER FOR CHILDREN, INC. AND AFFILIATE**

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEARS ENDED DECEMBER 31, 2017 AND 2016

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**8. PENSION PLAN**

On September 1, 1993, a simplified employee pension (individual retirement account) plan was adopted. The SEP-IRA plan covers all employees who have completed one year of service and who have attained the age of 18. Contributions to the plan are based upon 5% of wages of eligible employees. Annual pension costs for 2017 and 2016 were \$35,658 and \$50,195, respectively.

**9. TAX-DEFERRED ANNUITY PLAN**

The Center offers its employees a tax-deferred annuity plan (the Plan) qualified under Section 403(b) of the Internal Revenue Code. All employees are eligible to participate notwithstanding years of service. The Plan is 100% funded by the employee and there is no match by the Center. The Center has a fiduciary responsibility to ensure that the employee contributions are received and properly remitted to the plan administrator.

**10. LEASE COMMITMENTS**

The Center entered into a three year operating lease agreement for a vehicle in 2014. The agreement expired in 2017. During 2017, the Center entered into two new three year operating lease agreements for two vehicles. These agreements expire in 2020.

The Center had entered into five year operating lease agreements for office equipment which would expire in 2016; however, the lease was renewed for another five years in February 2016. The renewed agreement expires in 2020.

A summary of future minimum lease payments follows:

<u>Year Ended December 31,</u>	<u>Amount</u>
2018	\$ 22,864
2019	22,863
2020	<u>9,223</u>
Future minimum lease payments	<u>\$ 54,950</u>

Total lease expenses for 2017 and 2016 were \$18,805 and \$15,900, respectively.

(Continued)

# EL PASO CENTER FOR CHILDREN, INC. AND AFFILIATE

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEARS ENDED DECEMBER 31, 2017 AND 2016

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### 11. RELATED PARTY TRANSACTIONS

The Center purchases insurance coverage from a company at which one board member is employed. Insurance coverage was obtained through a competitive process and, in the opinion of management the coverage obtained was the most favorable to the Organization. During the fiscal years ended December 31, 2017 and 2016, the Organization paid the insurance agency \$60,421 and \$61,445, respectively, for insurance coverage.

The use of the facilities where the Center operates were donated by the Southwestern Children's Home Trust which owns the real property. During the fiscal years ending December 31, 2017 and 2016, both El Paso Center for Children and Southwestern Children's Home Trust recognized \$473,943 and \$138,715, respectively, of in-kind rent as revenues and expenses in the accompanying financial statements. These transactions were eliminated in the Consolidating Worksheet.

### 12. CONTINGENT LIABILITIES

The Center participates in numerous federal, state and local grants which are subject to additional audit and review by the granting agencies. These grants have complex compliance requirements and should federal, state, or local audits discover areas of material noncompliance, those funds may be subject to refund if so determined by the grantor. The amount, if any, of expenditures which may be disallowed by the granting agencies cannot be determined at this time. In the opinion of management, there are no significant contingent liabilities relating to compliance with the rules and regulations governing the respective grants; therefore, no provision has been recorded in the accompanying consolidated financial statements for such contingencies..

The Center has purchased certain small equipment with Federal awards. If the equipment is not used for its intended purpose during its depreciable life, title may revert to the grantor.

The Center is subject to licensing requirements and periodic inspections by State personnel for both the emergency shelter and the therapeutic homes program. The State may suspend the license if the Center fails to meet certain requirements or inspections.

### 13. CONCENTRATION OF REVENUE

During the years ended December 31, 2017 and 2016, the Center received revenue of \$3,477,008 and \$3,452,266, respectively, from government grants and fees. This constitutes approximately 83% in 2017 and 89% in 2016 of total public support and revenue. The loss of this funding could have a material impact on the ability of the Center to continue to provide the current level of services to the community.

(Continued)

**EL PASO CENTER FOR CHILDREN, INC. AND AFFILIATE**

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEARS ENDED DECEMBER 31, 2017 AND 2016

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**14. CONCENTRATION OF CREDIT RISK**

The Center routinely invests its surplus operating funds in money market mutual funds. These funds generally invest in highly liquid U.S. government and agency obligations. These money market funds are not insured or guaranteed by the U.S. government; however, management believed that credit risk related to these investments is minimal. The uninsured balances as December 31, 2017 and 2016 were \$250,908 and \$300,101, respectively.

**15. LITIGATION**

During the normal course of business, the Center may be subject to various legal claims. As of December 31, 2017, management is not aware of any claims which would have a material adverse effect on the financial statements.

**16. SUBSEQUENT EVENTS**

In January 2018, the market value of the mineral interest was reviewed and adjusted to \$61,402.

Subsequent events were evaluated through May 23, 2018, which is the date the financial statements were available to be issued.



**SUPPLEMENTARY INFORMATION**

**EL PASO CENTER FOR CHILDREN, INC. AND AFFILIATE  
CONSOLIDATING WORKSHEET  
December 31, 2017**

	El Paso Center for Children as of 12/31/2017	Southwestern Children's Home Trust as of 12/31/2017	Combined Balance as of 12/31/2017	Total Eliminations as of 12/31/2017	Consolidated Balance as of 12/31/2017
<b><u>ASSETS</u></b>					
Cash and cash equivalents	359,431	68,545	427,976	-	427,976
Investments	-	1,861,926	1,861,926	-	1,861,926
Grants and fees receivable	879,438	-	879,438	-	879,438
Unconditional promise to give	30,360	-	30,360	-	30,360
Prepaid expenses and other receivables	17,148	-	17,148	-	17,148
Net investment in sales-type lease	205,438	-	205,438	-	205,438
	<u>1,491,815</u>	<u>1,930,471</u>	<u>3,422,286</u>	<u>-</u>	<u>3,422,286</u>
Land, building and equipment, net	125,754	665,557	791,311	-	791,311
	<u>125,754</u>	<u>665,557</u>	<u>791,311</u>	<u>-</u>	<u>791,311</u>
Total assets	<u>1,617,569</u>	<u>2,596,028</u>	<u>4,213,597</u>	<u>-</u>	<u>4,213,597</u>
<b><u>LIABILITIES &amp; NET ASSETS</u></b>					
Accounts payable	454,346	-	454,346	-	454,346
Accrued payroll, vacation and related expenses	97,472	-	97,472	-	97,472
Total liabilities	<u>551,818</u>	<u>-</u>	<u>551,818</u>	<u>-</u>	<u>551,818</u>
Net assets	<u>1,065,751</u>	<u>2,596,028</u>	<u>3,661,779</u>	<u>-</u>	<u>3,661,779</u>
Total liabilities and net assets	<u>1,617,569</u>	<u>2,596,028</u>	<u>4,213,597</u>	<u>-</u>	<u>4,213,597</u>
<b><u>SUPPORT AND REVENUES</u></b>					
State grants and fees	3,003,912	-	3,003,912	-	3,003,912
Federal grants and fees	473,096	-	473,096	-	473,096
Contributions	641,450	-	641,450	(356,962)	284,488
Donated supplies, food and services	490,818	-	490,818	(473,943)	16,875
Rental income	22,050	473,943	495,993	(473,943)	22,050
Miscellaneous	24,333	-	24,333	-	24,333
Interest, dividends and royalties	26,078	77,747	103,825	-	103,825
Unrealized gain (loss) on investments	-	206,832	206,832	-	206,832
Realized Gain (loss) on investments	-	42,539	42,539	-	42,539
Total Support and Revenues	<u>4,681,737</u>	<u>801,061</u>	<u>5,482,798</u>	<u>(1,304,848)</u>	<u>4,177,950</u>
<b><u>EXPENSES</u></b>					
Salaries	1,138,063	-	1,138,063	-	1,138,063
Payroll taxes	124,428	-	124,428	-	124,428
Employee Bbenefits	80,362	-	80,362	-	80,362
Professional fees	156,099	26,457	182,556	-	182,556
Foster parent payments	364,384	-	364,384	-	364,384
Grants and donations	-	830,905	830,905	(830,905)	-
Supplies	109,541	-	109,541	-	109,541
Occupancy	844,002	2,994	846,996	(473,943)	373,053
Travel and conference	36,447	-	36,447	-	36,447
Specific assistance	9,477	-	9,477	-	9,477
Client transportation	12,889	-	12,889	-	12,889
Subcontracted services	1,386,329	-	1,386,329	-	1,386,329
Maintenance allocation	56,899	-	56,899	-	56,899
Miscellaneous	25,752	-	25,752	-	25,752
Depreciation	16,274	32,015	48,289	-	48,289
Total Expenses	<u>4,360,946</u>	<u>892,371</u>	<u>5,253,317</u>	<u>(1,304,848)</u>	<u>3,948,469</u>
Change in net assets	320,791	(91,310)	229,481	-	229,481
Net assets, beginning of the year	<u>744,960</u>	<u>2,687,338</u>	<u>3,432,298</u>	<u>-</u>	<u>3,432,298</u>
Net assets, end of year	<u>1,065,751</u>	<u>2,596,028</u>	<u>3,661,779</u>	<u>-</u>	<u>3,661,779</u>

**EL PASO CENTER FOR CHILDREN, INC. AND AFFILIATE  
CONSOLIDATING WORKSHEET  
December 31, 2016**

	El Paso Center for Children as of 12/31/2016	Southwestern Children's Home Trust as of 12/31/2016	Combined Balance as of 12/31/2016	Total Eliminations as of 12/31/2016	Consolidated Balance as of 12/31/2016
<b><u>ASSETS</u></b>					
Cash and cash equivalents	332,055	57,125	389,180	-	389,180
Investments	-	1,945,442	1,945,442	-	1,945,442
Grants and fees receivable	471,516	-	471,516	(12,800)	458,716
Unconditional promise to give	33,000	-	33,000	-	33,000
Prepaid expenses and other receivables	15,396	-	15,396	-	15,396
Net investment in sales-type lease	217,238	-	217,238	-	217,238
	<u>1,069,205</u>	<u>2,002,567</u>	<u>3,071,772</u>	<u>(12,800)</u>	<u>3,058,972</u>
Land, building and equipment, net	14,608	697,571	712,179	-	712,179
	<u>14,608</u>	<u>697,571</u>	<u>712,179</u>	<u>-</u>	<u>712,179</u>
Total assets	<u>1,083,813</u>	<u>2,700,138</u>	<u>3,783,951</u>	<u>(12,800)</u>	<u>3,771,151</u>
<b><u>LIABILITIES &amp; NET ASSETS</u></b>					
Accounts payable	265,738	12,800	278,538	(12,800)	265,738
Accrued payroll, vacation and related expenses	73,115	-	73,115	-	73,115
Total liabilities	<u>338,853</u>	<u>12,800</u>	<u>351,653</u>	<u>(12,800)</u>	<u>338,853</u>
Net assets	<u>744,960</u>	<u>2,687,338</u>	<u>3,432,298</u>	<u>-</u>	<u>3,432,298</u>
Total liabilities and net assets	<u>1,083,813</u>	<u>2,700,138</u>	<u>3,783,951</u>	<u>(12,800)</u>	<u>3,771,151</u>
<b><u>SUPPORT AND REVENUES</u></b>					
State grants and fees	2,941,810	-	2,941,810	-	2,941,810
Federal grants and fees	510,456	-	510,456	-	510,456
Contributions	277,492	-	277,492	(85,147)	192,345
Donated supplies, food and services	153,087	-	153,087	(138,715)	14,372
Rental income	-	138,835	138,835	(138,835)	-
Miscellaneous	16,556	-	16,556	-	16,556
Interest, dividends and royalties	26,707	76,518	103,225	-	103,225
Unrealized gain (loss) on investments	-	122,744	122,744	-	122,744
Realized Gain (loss) on investments	-	(26,914)	(26,914)	-	(26,914)
Total Support and Revenues	<u>3,926,108</u>	<u>311,183</u>	<u>4,237,291</u>	<u>(362,697)</u>	<u>3,874,594</u>
<b><u>EXPENSES</u></b>					
Salaries	1,150,391	-	1,150,391	-	1,150,391
Payroll taxes	111,831	-	111,831	-	111,831
Employee Bbenefits	180,383	-	180,383	-	180,383
Professional fees	246,197	29,958	276,155	-	276,155
Foster parent payments	308,432	-	308,432	-	308,432
Grants and donations	-	223,862	223,862	(223,862)	-
Supplies	87,956	-	87,956	-	87,956
Occupancy	287,690	4,671	292,361	(138,835)	153,526
Travel and conference	30,852	-	30,852	-	30,852
Specific assistance	17,770	-	17,770	-	17,770
Client transportation	9,500	-	9,500	-	9,500
Subcontracted services	1,412,698	-	1,412,698	-	1,412,698
Maintenance allocation	20,287	-	20,287	-	20,287
Miscellaneous	14,877	675	15,552	-	15,552
Depreciation	10,961	32,015	42,976	-	42,976
Total Expenses	<u>3,889,825</u>	<u>291,181</u>	<u>4,181,006</u>	<u>(362,697)</u>	<u>3,818,309</u>
Change in net assets	36,283	20,002	56,285	-	56,285
Net assets, beginning of the year	708,677	2,667,336	3,376,013	-	3,376,013
Net assets, end of year	<u>744,960</u>	<u>2,687,338</u>	<u>3,432,298</u>	<u>-</u>	<u>3,432,298</u>

**STATE AWARDS SECTION**

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

To the Board of Directors  
El Paso Center for Children, Inc.

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 the *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of El Paso Center for Children, Inc. (a nonprofit organization), 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 May 23, 2018.

The financial statements of the Southwestern Children's Home Trust (Affiliate) were not audited in accordance with *Government Auditing Standards*, and accordingly, this report does not include reporting on internal control over financial reporting or instances of reportable noncompliance associated with Southwestern Children's Home Trust (Affiliate).

**Internal Control Over Financial Reporting**

In planning and performing our audit of the financial statements, we considered El Paso Center for Children, Inc.'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 the El Paso Center for Children, Inc.'s internal control. Accordingly, we do not express an opinion on the effectiveness of El Paso Center for Children, Inc.'s internal control.

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

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

## **Compliance and Other Matters**

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

## **Purpose of this Report**

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

*Gilson Ruddock Patterson LLC*

El Paso, Texas  
May 23, 2018

INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR  
EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER  
COMPLIANCE REQUIRED BY THE STATE OF TEXAS  
UNIFORM GRANT MANAGEMENT STANDARDS

To the Board of Directors  
El Paso Center for Children, Inc.

**Report on Compliance for Each Major State Program**

We have audited El Paso Center for Children, Inc.'s compliance with the types of compliance requirements described in the State of Texas Uniform Grant Management Standards that could have a direct and material effect on El Paso Center for Children, Inc.'s major state program for the year ended December 31, 2017. El Paso Center for Children, Inc.'s major state program is 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 state statutes, regulations, and the terms and conditions of its state awards applicable to its state programs.

***Auditor's Responsibility***

Our responsibility is to express an opinion on compliance for each of the El Paso Center for Children, Inc.'s major state programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the audit requirements of the State of Texas Uniform Grant Management Standards. Those standards and the State of Texas Uniform Grant Management Standards 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 state program occurred. An audit includes examining, on a test basis, evidence about El Paso Center for Children, Inc.'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 state program. However, our audit does not provide a legal determination of El Paso Center for Children, Inc.'s compliance.

### ***Opinion on Each Major State Program***

In our opinion, El Paso Center for Children, Inc. complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on its major state program for the year ended December 31, 2017.

### **Report on Internal Control Over Compliance**

Management of El Paso Center for Children, Inc. 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 El Paso Center for Children, Inc.'s internal control over compliance with the types of requirements that could have a direct and material effect on each major state program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major state program and to test and report on internal control over compliance in accordance with the State of Texas Uniform Grant Management Standards, 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 El Paso Center for Children, Inc.'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 state program on a timely basis. *A material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a state program will not be prevented, or detected and corrected, on a timely basis. *A significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a state program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph 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 State of Texas Uniform Grant Management Standards. Accordingly, this report is not suitable for any other purpose.

*Gibson Ruddleck Patterson LLC*

El Paso, Texas  
May 23, 2018



EL PASO CENTER FOR CHILDREN, INC.

SCHEDULE OF FINDINGS & QUESTIONED COSTS

FOR THE YEAR ENDED DECEMBER 31, 2017

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**SUMMARY OF AUDITOR'S RESULTS**

**Financial Statements**

**Type of Auditor's Report issued on whether the financial statements audited were prepared in accordance with GAAP:** Unmodified

**Internal control over financial reporting:**

**Were significant deficiencies in internal controls disclosed?** None reported

**Were material weaknesses in internal control disclosed?** No

**Was any noncompliance disclosed that is material to the financial statements of the auditee, which would be required to be reported in accordance with Government Auditing Standards:** No

**State Awards**

**Internal Control over major state award programs:**

**Were significant deficiencies in internal control over major programs disclosed?** None reported

**Were material weaknesses in internal control over major programs disclosed?** No

**Type of auditor's report issued on compliance for the major state awards programs:** Unmodified

**Were there any audit findings that the auditor is required to disclose under the *State of Texas Uniform Grant Management Standards*?** No

**Dollar threshold used to distinguish between Type A and Type B State Programs:** \$300,000

**Did auditee qualify as low risk auditee under the *State of Texas Uniform Grant Management Standards*?** Yes

**Major Program:** Services to At-Risk Youth-  
Contract #24028686 and 24555393

**EL PASO CENTER FOR CHILDREN, INC.**

**SCHEDULE OF FINDINGS & QUESTIONED COSTS**

**FOR THE YEAR ENDED DECEMBER 31, 2017**

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**FINANCIAL STATEMENT FINDINGS**

There are no current year findings or questioned costs.

**STATE AWARD FINDINGS AND QUESTIONED COSTS**

There are no current year findings or questioned costs.

**EL PASO CENTER FOR CHILDREN, INC.**

**SCHEDULE OF STATUS OF PRIOR YEAR FINDINGS**

**FOR THE YEAR ENDED DECEMBER 31, 2017**

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**FINANCIAL STATEMENT FINDINGS**

There were no prior year findings or questioned costs.

**STATE AWARD FINDINGS AND QUESTIONED COSTS**

There were no prior year findings or questioned costs.

**EL PASO CENTER FOR CHILDREN, INC.**

SCHEDULE OF EXPENDITURES OF STATE AWARDS

FOR THE YEAR ENDED DECEMBER 31, 2017

State Grantor/Pass-Through Grantor/Program Title	State Award Number	Audit Period Expenditures	Amount Provided to Subrecipients
<b>Texas Department of Family and Protective Services</b>			
Services to At-Risk Youth (STAR)	24028686	\$ 545,840	\$ -
Services to At-Risk Youth (STAR)	24555393	18,625	-
Total Services to At-Risk Youth		564,465	-
Healthy Outcomes through Prevention and Early Support Program (HOPES)	24125807	163,323	1,382,750
<b>Total for Texas Department of Family and Protective Services</b>		727,788	1,382,750
<b>Texas Department of Housing and Community Affairs</b>			
<u>Passed Through El Paso Human Services</u>			
Emergency Solutions Grants Program	42170002817	2,751	-
<b>Total State Awards</b>		\$ 730,539	1,382,750

See accompanying notes to Schedule of Expenditures of State Awards.

EL PASO CENTER FOR CHILDREN, INC.

NOTES TO SCHEDULE OF EXPENDITURES OF STATE AWARDS

YEAR ENDED DECEMBER 31, 2017

1. GENERAL

The accompanying schedule of expenditures of state awards includes the state award activity of the El Paso Center for Children, Inc., under programs of the state government for the year ended December 31, 2017. The information in this schedule is presented in accordance with the requirements of the State of Texas *Uniform Grant Management Standards*. Because the schedule presents only a selected portion of the operations of the El Paso Center for Children, Inc., it is not intended to and does not present the financial position, changes in net assets, or cash flows of the El Paso Center for Children, Inc.

2. BASIS OF ACCOUNTING

Accounting and Financial Reporting - The schedule of expenditures of state awards is presented using the accrual basis of accounting, which reflects the flow of economic resources measurement focus and requires recognition of revenue when earned and expenses when incurred.

Period of performance - The period of performance for state grants for the purpose of liquidation of outstanding obligations made on or before the ending date of the federal project period extended 90 days beyond the state project period ending date, in accordance with provisions in Subpart C - Post-Award Requirements of the Uniform Grant Management Standards.

Matching - Matching contributions were not required for any of the state awards.

Program Income - Program income was not generated from any of the state awards.

Non-Cash Assistance - El Paso Center for Children, Inc., did not receive any state awards in the form of non-cash assistance during the year.

3. RECONCILIATION OF THE SCHEDULE OF EXPENDITURES OF STATE AWARDS TO THE STATEMENT OF ACTIVITIES

Amount of expenditures of state awards	\$ 2,113,289
Plus state awards not subject to single audit requirements (not included in SESA):	
Texas Department of Family and Protective Services - Therapeutic Family Homes	659,611
Texas Department of Family and Protective Services - Emergency Shelter	228,491
Crime Victim Services Division - Therapeutic Family Homes	2,133
Child Welfare Board	388
	<hr/>
Amount of State grants and fees on the consolidated statement of activities	<u><u>\$ 3,003,912</u></u>

(Continued)

**EL PASO CENTER FOR CHILDREN, INC.**

**NOTES TO SCHEDULE OF EXPENDITURES OF STATE AWARDS**

**YEAR ENDED DECEMBER 31, 2017**

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**4. INDIRECT COST RATE**

The Center did not elect to use the 10% de minimis indirect cost rate but used the indirect cost rate assigned by the Department of Health and Human Services.

**5. INSURANCE COVERAGE**

During 2017 El Paso Center for Children, Inc. had the following insurance coverage in effect:

- Commercial General Liability Coverage each occurrence \$1,000,000 with a general aggregate of \$3,000,000.
- Commercial Crime Coverage with an aggregate amount of \$100,000.
- Professional Liability Coverage each occurrence \$1,000,000 with an aggregate limit of \$3,000,000.
- Directors & Officers and Fidelity Liability with an aggregate limit of \$1,000,000.
- Automobile Liability with a single limit of \$1,000,000 (each accident).
- Workers Compensation and Employers Liability with a single limit of \$500,000 (each accident).