THE CHILDREN'S CENTER OF THE ANTELOPE VALLEY

FINANCIAL STATEMENTS

JUNE 30, 2017 and 2016 (Restated)

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COBB, DOERFLER & ASSOCIATES, CPA
A PROFESSIONAL CORPORATION
1039 WEST AVENUE J
LANCASTER, CALIFORNIA 93534

INDEPENDENT AUDITORS' REPORT

Board of Directors
The Children's Center of the Antelope Valley
Lancaster, California

We have audited the accompanying financial statements of The Children's Center of the Antelope Valley (a nonprofit organization), which comprise the statements of financial position as of June 30, 2017 and 2016, and the related statements of activities, functional expenses, and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statement, 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 the 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 The Antelope Valley Children's Center as of June 30, 2017 and 2016, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our reported dated January 31, 2018 on our consideration of The Children's Center of the Antelope Valley's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Cobb, Doerfler & Associates, CPA

COBB, DOERFLER & ASSOCIATES, CPA
January 31, 2018

THE CHILDREN'S CENTER OF THE ANTELOPE VALLEY
STATEMENTS OF FINANCIAL POSITION
June 30, 2017 and 2016 (Restated)

ASSETS

	2017	2016 (Restated)
CURRENT ASSETS		
Cash	$ 861,297	$ 423,804
Investments	12,192	686
Inventory	85,000	-0-
Accounts Receivable	550,175	848,481
Prepaid Expenses	25,535	12,380
Total Current Assets	1,534,199	1,285,351
PROPERTY AND EQUIPMENT, NET		
Net of Accumulated Depreciation	2,489,574	2,570,593
Total Assets	$ 4,023,773	$ 3,855,944

LIABILITIES AND NET ASSETS

	2017	2016 (Restated)
CURRENT LIABILITIES		
Accounts Payable	$ 18,790	$ 41,597
Deferred Income	13,214	890
Accrued Payroll and Payroll Taxes	214,438	267,863
Total Current Liabilities	246,442	310,350
Total Liabilities	246,442	310,350
NET ASSETS		
Unrestricted	3,777,331	3,545,594
Total Net Assets	3,777,331	3,545,594
Total Liabilities and Net Assets	$ 4,023,773	$ 3,855,944

See accompanying notes and
Independent Auditor's Report.

THE CHILDREN'S CENTER OF THE ANTELOPE VALLEY
STATEMENTS OF ACTIVITIES
For the Years Ended June 30, 2017 and 2016 (Restated)

	2017	2016 (Restated)
PUBLIC SUPPORT AND REVENUES		
PUBLIC SUPPORT		
Corporation and foundation donations	$ 14,000	$ 31,313
Individual, service organizations, and employee fund donations	128,512	51,332
In-Kind donations	213,210	124,094
Special events and fundraising	188,250	227,137
Total Public Support	543,972	433,876
REVENUES		
County financial assistance/grants	3,098,840	2,573,113
State financial assistance/grants	-0-	214,969
Fees for service	71,077	5,670
Lease income	-0-	2,300
Interest income	60	64
Investment earnings	11,506	374
Gain (Loss) on sale of fixed assets	(4,300)	-0-
Other	1,206	16,917
Total Revenues	3,178,389	2,813,407
Total Public Support and Revenues	3,722,361	3,247,283
FUNCTIONAL EXPENSES		
Program services	3,151,937	2,771,255
Management and general	272,329	241,531
Fundraising	66,358	80,605
Total Functional Expenses	3,490,624	3,093,391
Change in Net Assets	231,737	153,892
NET ASSETS - BEGINNING OF YEAR	3,545,594	3,391,702
NET ASSETS - END OF YEAR	$ 3,777,331	$ 3,545,594

See accompanying notes and
Independent Auditor's Report.

THE CHILDREN'S CENTER OF THE ANTELOPE VALLEY
STATEMENTS OF FUNCTIONAL EXPENSES
For the Years Ended June 30, 2017 and 2016 (Restated)

	2017				2016 (Restated)			
	Program Services	Management and General	Fund Raising	Total	Program Services	Management and General	Fund Raising	Total
COMPENSATION AND RELATED EXPENSES								
Wages and Salaries	$ 2,271,361	$ 201,555	$ -0-	$ 2,472,916	$ 1,984,965	$ 177,661	$ -0-	$ 2,162,626
Employee Benefits	97,441	8,647	-0-	106,088	85,643	7,665	-0-	93,308
Payroll Taxes	187,272	16,618	-0-	203,890	170,259	15,239	-0-	185,498
Total Compensation and Related Expenses	2,556,074	226,820	-0-	2,782,894	2,240,867	200,565	-0-	2,441,432
OPERATING EXPENSES								
Conferences, Travel and Training	63,518	-0-	-0-	63,518	62,498	-0-	-0-	62,498
Depreciation	83,028	7,368	-0-	90,396	76,763	6,871	-0-	83,634
Insurance	40,022	3,551	-0-	43,573	38,303	3,428	-0-	41,731
Occupancy	59,326	5,264	-0-	64,590	62,021	5,551	-0-	67,572
Contract and Outside Services	279,695	24,819	-0-	304,514	208,295	18,643	-0-	226,938
Supplies	10,451	-0-	-0-	10,451	5,169	-0-	-0-	5,169
Printing, Office Supplies and Postage	20,715	1,838	-0-	22,553	32,971	2,951	-0-	35,922
Telephone	17,604	1,562	-0-	19,166	16,764	1,500	-0-	18,264
Advertising and Other Operating	12,476	1,107	-0-	13,583	22,587	2,022	-0-	24,609
Banquet costs, Entertainment, Etc.	-0-	-0-	66,358	66,358	-0-	-0-	80,605	80,605
Miscellaneous	9,028	-0-	-0-	9,028	5,017	-0-	-0-	5,017
Total Operating Expenses	595,863	45,509	66,358	707,730	530,388	40,966	80,605	651,959
Total Functional Expenses	$ 3,151,937	$ 272,329	$ 66,358	$ 3,490,624	$ 2,771,255	$ 241,531	$ 80,605	$ 3,093,391

See accompanying notes and
Independent Auditor's Report.

THE CHILDREN'S CENTER OF THE ANTELOPE VALLEY
STATEMENTS OF CASH FLOWS
For the Years Ended June 30, 2017 and 2016 (Restated)

	2017	2016 (Restated)
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in Net Assets	$ 231,737	$ 153,892
Adjustments to Reconcile Change in Net Assets to Net Cash Provided by Operating Activities		
Depreciation	90,396	83,634
In-kind contributions	(85,000)	-0-
(Gain) Loss on sale of fixed asset	4,300	-0-
(Increase) Decrease in Assets		
Accounts receivable	298,306	(403,151)
Prepaid expenses and other current assets	(13,155)	(880)
Increase (Decrease) in Liabilities		
Accounts payable	(2,207)	(15,848)
Accrued payroll and payroll taxes	(53,425)	42,227
Deferred income	12,324	(267,572)
Net Cash Provided (Used) by Operating Activities	483,276	(407,698)
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of fixed assets	(37,977)	(10,609)
Purchase of investments	(11,506)	(374)
Proceeds from sale of fixed assets	3,700	-0-
Net Cash Provided (Used) by Investing Activities	(45,783)	(10,983)
Net Increase (Decrease) in Cash	437,493	(418,681)
Cash - Beginning of Year	423,804	842,485
Cash - End of Year	$ 861,297	$ 423,804
SUPPLEMENTAL INFORMATION		
Interest Paid	$ 231	$ 301
Schedule of Noncash Investing and Financing Transactions:		
Fixed asset additions included in accounts payable	$ -0-	$ 20,600
Donation of vehicle	85,000	-0-
Total Noncash Transations	$ 85,000	$ 20,600

See accompanying notes and
Independent Auditor's Report.

NOTE 1 — SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Formation and Scope of Operation

The Children's Center of the Antelope Valley (the Center) is located in Lancaster, California and was incorporated under the laws of the State of California to provide prevention, intervention and treatment services to victims of child abuse and their families who live in the Antelope Valley. The primary sources of the organizations revenue comes from state and county grant contracts.

B. Method of Accounting

The Center maintains its books on the accrual basis of accounting and, accordingly, reflects all significant receivables, payables and other liabilities.

C. Financial Statement Presentation

The Center is required to report information regarding its financial position and activities classified based on the existence or absence of donor-imposed restrictions. Accordingly, net assets of the Center and changes therein are classified and reported as follows:

Unrestricted Net Assets – Net assets not subject to donor-imposed stipulations. These assets are available to support the Center's activities and operations at the direction of the board of directors.

Temporarily Restricted Net Assets – Net assets subject to donor-imposed stipulations that will be met either by actions of the Center and/or through the passage of time.

Permanently Restricted Net Assets – Net assets subject to donor-imposed stipulations that the corpus be maintained permanently by the Center. Generally, the donors permit the Center to use all or part of the income earned for either general or donor-specified purposes.

As of June 30, 2017 and 2016, the Center had no temporarily restricted or permanently restricted net assets.

D. 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.

E. Cash and Cash Equivalents

For purposes of the Statement of Cash Flows, the Center considers all unrestricted highly liquid investments with an initial maturity of three months or less to be cash equivalents.

F. Accounts Receivable

Accounts receivable as of June 30, 2017 and 2016 consisted of grant receivables, and are stated at the amount management expects to collect from outstanding balances. Management provides for probable uncollectible amounts through a provision for bad debt expenses and an adjustment to a valuation allowance based on its assessment of the current status of individual accounts. Balances that are still outstanding after management has used reasonable collection efforts are written off through a charge to the valuation allowance and a credit to accounts receivable. As these balances are expected to be fully collectible, an allowance for doubtful accounts has not been accrued. However, an allowance for charity care of $311,141 and $81,323, has been accrued as of June 30, 2017 and 2016, respectively. See Note G below for more detail.

G. Inventory

Inventory consists of donated items for use for fundraising purposes. Items are valued at fair market value at the time of donation or current market value if lower. If the value of inventory is lower than that originally recognized, the difference is recognized as a loss in the statement of activities in the period in which it occurs.

NOTE 1 — SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

H. Charity Care

The Center provides care to patients who meet certain criteria under its charity care policy without charge or at amounts less than its established rates. Because, the Center does not pursue collection of amounts determined to qualify as charity care, they are not reported as revenue. During the years ended June 30, 2017 and 2016, revenues forgone, based off of established rates, totaled $311,141 and $81,323, respectively.

I. Property, Equipment and Improvements

All purchased property and equipment are valued at cost when purchased and at their estimated fair market value on the date received if donated. A capitalization threshold of $5,000 is used. Donations of property and equipment are reported as unrestricted support unless the donor has restricted the donated asset to a specific purpose. Assets donated with restrictions regarding their use, and contributions of cash that must be used to acquire property and equipment, are reported as restricted support. Absent donor stipulation regarding how long those donated assets must be maintained, the Center reports expirations of donor restrictions when the donated or acquired assets are placed in service as instructed by the donor. The Center reclassifies temporarily restricted net assets to unrestricted net assets at that time. Property and equipment are being depreciated using the straight-line method over the following estimated useful lives as follows:

Asset Class	Estimated Useful Lives
Buildings	5-40 years
Autos	5-10 years
Furniture, Fixtures & Equipment	5-15 years

J. Deferred Revenue

During the year ended June 30, 2017 the Center received monies from the Department of Mental Health (DMH) totaling $214 for which it was not entitled for services rendered under the terms of its contract. However, the Center incurred costs equal to and in excess of the funds advanced to the Center by the DMH during the term of the contract and believes that it should be reimbursed for those costs. Accordingly, until such time as a final determination is reached with DMH, those monies have been reflected as deferred revenue on the financial statements. As of June 30, 2017 and 2016, deferred revenue related to DMH totaled $214 and $890, respectively.

Additionally, the Center has also recorded deferred revenues related for a fundraiser in which a classic roadster is to be raffled subsequent to June 30, 2017 but for which tickets have been sold prior to the year end. As of June 30, 2017 deferred revenue related to this event totaled $13,000.

K. Contributions

All contributions are considered to be available for unrestricted use unless specifically restricted by the donor. Contributions that are restricted by the donor for specific purposes or the future periods are reported as an increase in temporarily restricted or permanently restricted support. When a restriction expires (that is, when a stipulated time restriction ends or purpose restriction is accomplished), temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets released from restrictions.

Financial Accounting Standards Board Accounting Standards Codification (FASB ASC) {958-605-45-4}, *Accounting for Contributions Received and Contributions Made* and its subsequent interpretations, provides that if the governing body of an organization has the ability to remove a donor restriction (i.e., variance power), the contribution should be classified as an unrestricted net asset. Accordingly, such assets are classified in the accompanying financial statements as unrestricted net assets absent donor-imposed restrictions to maintain the assets permanently. This classification does not alter the longstanding policy of the Center to distribute assets entrusted to the Center in accordance with the intentions of the Center's donors and to manage the assets of the component funds in a manner similar to an endowment with only a portion of each component fund distributed annually, unless directed otherwise by the fund advisor.

NOTE 1 — SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

K. Donated Material and Services

Donated materials are reflected as contribution revenues/contract and outside expense in equal amounts at their estimated fair values. These donated materials were valued at $212,175 and $115,276 during the fiscal year ended June 30, 2017 and 2016, respectively.

Donated professional services have been reflected on the financial statements contribution revenues/contract and outside expense based upon the normal pay for the type of service rendered. These professional services were valued at $1,035 and $8,818 during the fiscal year ended June 30, 2017 and 2016, respectively.

L. Income Taxes

The Center qualifies as a tax-exempt organization under Section 501(c)(3) of the Internal Revenue Service Code and Section 23701d of the State of California Revenue and Taxation Code.

Generally accepted accounting principles provide accounting and disclosure guidance about positions taken by an organization in its tax returns that might be uncertain. Management has considered its tax positions and believes that all of the positions taken by the Center in its federal and state exempt organizations tax returns are more likely than not to be sustained upon examination. The Center returns are subject to examination by federal and state taxing authorities, generally for three and four years, respectively, after they are filed.

NOTE 2 — CASH

All cash and certificates of deposit are deposited into institutions that are insured or collateralized by the Federal Deposit Insurance Center (FDIC). Under FDIC guidelines each depositor's accounts are insured to an aggregate of $250,000. At June 30, 2017 and 2016, the Center had $611,291 and $173,804, respectively, of cash deposited at one institution which exceeded the FDIC insured/collateralized amount.

NOTE 3 – INVESTMENTS

The fair value of financial instruments has been determined through quoted market values to approximate the amounts recorded in the statement of financial position. Investments in marketable securities consist of the following at June 30, 2017 and 2016:

	2017		2016	
	Cost	Fair Market Value	Cost	Fair Market Value
Investments:				
Equity large cap funds	$ 1,030	$ 12,192	$ 686	$ 686
	$ 1,030	$ 12,192	$ 686	$ 686

Investment return consists of the following:

	2017	2016
Investment income	$ 344	$ 374
Investment Gain (Loss)	11,162	-0-
	$ 11,506	$ 374

NOTE 4 — RECEIVABLES

Receivable at June 30, 2017 and 2016 consisted of the following:

	2017	2016
Los Angeles County Sources		
Family Preservation Program-Lancaster	$ 51,797	$ 96,315
Family Preservation Program-Palmdale	44,373	68,136
Relative Support Services	35,651	-0-
Department of Mental Health	671,766	745,689
Total County Sources	803,587	910,140
Private Sources – Fee for Service		
Private payers	8,288	4,108
Kaiser	46,144	-0-
Total State Sources	54,432	4,108
Other Receivables	3,297	15,556
Total Accounts Receivable	861,316	929,804
Less: Allowance for Charity Care	(311,141)	(81,323)
Net Accounts Receivable	$ 550,175	$ 848,481

NOTE 5 – PROPERTY AND EQUIPMENT

A summary of changes in property and equipment is presented below:

	Balance July 1, 2016	Additions	Deletions	Balance June 30, 2017
Land	$ 464,525	$ -0-	$ (8,000)	$ 456,525
Buildings and improvements	2,738,737	17,377	-0-	2,756,114
Autos	11,995	-0-	-0-	11,995
Furniture, fixtures and equipment	371,427	-0-	-0-	371,427
Totals	3,586,684	17,377	(8,000)	3,596,061
Accumulated depreciation	(1,016,091)	(90,396)	-0-	(1,106,487)
Net Property and Equipment	$ 2,570,593	$ 11,981	$ (8,000)	$ 2,574,574

NOTE 6 – LEASE COMMITMENTS

As of June 30, 2017, the Center had entered into two operating leases for office equipment. Rental expense for the year ended June 30, 2017 under the leases was $11,378. The scheduled future lease payments are as follows:

Year Ending June 30,	Amount
2018	$ 11,181
2019	10,589
2020	4,412
Thereafter	-0-
	$ 26,182

NOTE 7 — CONCENTRATIONS OF RISK

The Center's contracts with the Los Angeles County Department of Mental Health (LACDMH) comprised approximately 57% and 56% of the Center's revenues during the years ending June 30, 2017 and 2016, respectively. A significant decrease in funding or the loss of a contract with LACDMH could have a significant negative effect on the Center's financial condition.

The Center's contracts with the Los Angeles County Department of Children and Family Services (DCFS) comprised approximately 25% and 21% of the Center's revenues during the years ending June 30, 2017 and 2016, respectively. A significant decrease in funding or the loss of a contract with DCFS could have a significant negative effect on the Center's financial condition.

NOTE 8 – FUNCTIONAL ALLOCATION OF EXPENSES

The costs of providing the various programs and supporting services have been summarized on a functional basis in the Statement of Activities. Accordingly, certain costs have been allocated among the programs and supporting services benefited.

NOTE 9 – RETIREMENT PLAN

The Center maintains a Savings Incentive Match Plan for an Employee's Individual Retirement Account (Simple IRA) under IRC Section 408(p). All full time employees are eligible to make their own contributions and employer contributions made are based on matching employee contributions up to 3% of eligible wages as defined in the plan. Total employer contributions for the years ended June 30, 2017 and 2016 were $49,018 and $44,964, respectively.

NOTE 10 – PRIOR PERIOD RESTATEMENT

The financial statements for the year ended June 30, 2016, were restated to reflect changes in management estimates related to the value of charity care provided and workers compensation insurance payable. In the case of charity care, amounts incorrectly included in accounts receivable and revenues totaled $81,323 that was later determined to be charity care. The estimated workers compensation payable was reduced by $23,465, to reflect lower workers compensation insurance rates that were realized but were lower than anticipated. Overall these changes affected the reported change in net assets on the Statement of Activities as follows:

Change in Net Assets – Before Adjustment	$	211,750
Increase in Charity Care		(81,323)
Decrease in Workers Compensation Insurance Payable		23,465
Change In Net Assets – After Adjustment	$	153,892

NOTE 11 – SUBSEQUENT EVENTS

Management has evaluated subsequent events through January 31, 2018, the date the financial statements were available to be issued. No events were identified that would merit disclosure.

OTHER INDEPENDENT AUDITORS' REPORT

COBB, DOERFLER & ASSOCIATES, CPA
A PROFESSIONAL CORPORATION
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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*

Board of Directors
The Children's Center of the Antelope Valley
Lancaster, California

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of The Children's Center of the Antelope Valley, which comprise the statement of financial position as of June 30, 2017, and the related statements of activities, and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated January 31, 2018.

<u>Internal Control Over Financial Reporting</u>

In planning and performing our audit of the financial statements, we considered The Children's Center of the Antelope Valley'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 Children's Center of the Antelope Valley's internal control. Accordingly, we do not express an opinion on the effectiveness of the Center'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 and therefore, material weaknesses or significant deficiencies may exist that were not identified. We did identify certain deficiencies in internal control, described in the accompanying schedule of findings and responses as findings 2017-001 and 2017-002 that we consider to be material weaknesses.

<u>Compliance and Other Matters</u>

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

The Children's Center of the Antelope Valley's Response to Findings

The Children's Center of the Antelope Valley's response to the findings identified in our audit is described in the accompanying schedule of findings and questioned costs. The Children's Center of the Antelope Valley response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

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.

Cobb, Doerfler & Associates, CPA

COBB, DOERFLER & ASSOCIATES, CPA
January 31, 2018

THE CHILDREN'S CENTER OF THE ANTELOPE VALLEY
SCHEDULE OF FINDINGS AND RESPONSES
For the Year Ended June 30, 2017

SECTION I – SUMMARY OF AUDITOR'S RESULTS

1) Financial Statements – The auditor's report expresses an unqualified opinion on the financial statements of The Children's Center of the Antelope Valley.

2) Internal Control Over Financial Reporting – Two material weaknesses were disclosed during the audit of the financial statements.

3) Noncompliance Material to Financial Statements – No instances of noncompliance material to the financial statements of The Children's Center of the Antelope Valley were disclosed during the audit.

4) Federal Awards – There was not an audit of major federal awards programs for the year ended June 30, 2017, due to the Center's federal expenditures not exceeding the level requiring a Single Audit under the requirements of Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance).

SECTION II – INTERNAL CONTROL FINDINGS AND RESPONSES

2017-001

Condition and Criteria – Under generally accepted accounting principles the use of management estimates is necessary to appropriately represent events transactions that management expects will occur. Adjustments were made during our audit in the current period and to restate the prior period to include additional estimates and to revise certain other estimates that were made.

Context – In the current and prior period the Center has been recording certain types of revenue based off of estimates. However, as an exact amount was not used, an allowance should have been made to reflect the possibility that certain amounts may not be collectible. Additionally, that incorrect figures were being used to estimate workers compensation payable in the prior period and needed to be revised.

Cause – The cause of these errors appears to be due to changes in accounting policies which had unintended impact on financial statement amounts and due to a need for management to periodically review assumptions used when recording estimated amounts.

Effect – Due to these errors accounts receivable was overstated by approximately $311,141 and $81,323 for the years ended June 30, 2017 and 2016, respectively. For the year ended June 30, 2016, workers compensation payable was overstated by approximately $23,465.

Recommendation – It is our recommendation that the Center develop procedures by which the underlying assumptions used for preparing various accounting estimates used in the financial statements are reviewed for reasonableness and that periodically estimated amounts are compared against actual results to assess their validity.

Views of Responsible Officials – Based on auditor recommendation on the Schedule of Findings and Responses, the following has been implemented per the Recommendation:

CCAV has used the EXYM system to estimate the anticipated revenue from the largest funding source, The Department of Mental Health(DMH). Effective May 2017, the billing system changed through DMH to IBHIS which is updated once per week. This system change has eliminated much of the estimates that were causing inaccuracies. In addition, on a weekly basis, any discrepancies are reviewed and the number is adjusted accordingly. Since the implementation of this change, checks received have been significantly more accurate then in the past.

Although CCAV does not control implementation of new billing systems, extra diligence will be taken by administration and reviewed by the Finance Committee whenever estimates are required to accurately represent the financial statements.

SECTION II – INTERNAL CONTROL FINDINGS AND RESPONSES – continued

2017-002

Condition and Criteria – Under generally accepted accounting principles the Center is required to account for the fair market value of in-kind donations it receives. In the current period the Center did not consistently or completely account for those donations.

Context – In the current period, the Center received significant in-kind support in the form of in-kind donations for its clients and in the form of items to be sold during its fundraisers. This support totaled approximately $212,175 in the current year.

Cause – The cause of this error in the current period appears to be due to a failure to reconcile the supporting ledgers to the balances reported in the general ledger.

Effect – Due to these errors in-kind donations were underreported by approximately $42,771 in the current period.

Recommendation – It is our recommendation that Center implement the use of monthly account reconciliation worksheets in situations in which accounting information is maintain manually outside of its general ledger. This will ensure that the information contained in the general ledger agrees with the information reported on the subsidiary ledgers.

Views of Responsible Officials – In an ongoing effort to ensure separation of duties among employees, the in-kind support log is maintained separately from accounting. As part of the monthly checklist the in-kind log is reviewed by Finance posting the entries. However, it has been discovered that in-kind does not necessarily come through the "front desk". To correct this weakness, at the recap meeting for each outreach event and opportunities where in-kind donations are made but not recorded, the list of in-kind donors will be compared to the supporting log, thank you letters and ultimately the General Ledger to ensure accuracy and completeness.