



**The Warren Center, Inc.**

**Financial Statements with Supplementary  
Information and Compliance Reports  
August 31, 2017 (with summarized comparative totals for 2016)**

# The Warren Center, Inc.

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## **Independent Auditors' Report**

To the Board of Directors of  
The Warren Center, Inc.

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

We have audited the accompanying financial statements of The Warren Center, Inc. (a nonprofit organization), which comprise the statement of financial position as of August 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.

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

Management is responsible for the preparation and fair presentation of these financial statements in accordance with U.S. generally accepted accounting principles; 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.

### ***Auditors' Responsibility***

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

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

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

## **Opinion**

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of The Warren Center, Inc. as of August 31, 2017, and the changes in its net assets and its cash flows for the year then ended in accordance with U.S. generally accepted accounting principles.

## **Other Matters**

### *Report on Summarized Comparative Information*

We have previously audited The Warren Center's 2016 financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated January 23, 2017. In our opinion, the summarized comparative information presented herein as of and for the year ended August 31, 2016 is consistent, in all material respects, with the audited financial statements from which it has been derived.

### *Supplementary Information*

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The accompanying schedule of expenditures of federal and state awards, as required by Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, is presented for purposes of additional analysis and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with U.S. generally accepted auditing standards. In our opinion, the information is fairly stated, in all material respects, in relation to the financial statements as a whole.

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

In accordance with *Government Auditing Standards*, we have also issued our report dated May \_\_, 2018 on our consideration of The Warren Center, Inc.'s internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering The Warren Center, Inc.'s internal control over financial reporting and compliance.

*Sutton Frost Cary*

A Limited Liability Partnership

Arlington, Texas  
May 30, 2018

**The Warren Center, Inc.**  
**Statement of Financial Position**  
**August 31, 2017**  
**(with summarized comparative totals for 2016)**

	2017	2016
<b>Assets</b>		
<b>Current assets:</b>		
Cash	\$ 510,401	\$ 795,082
Certificates of deposit	290,000	50,160
Accounts receivable, net	350,386	332,825
Unconditional promises to give, net	311,745	127,686
Prepaid expenses	18,915	13,467
<b>Total current assets</b>	1,481,447	1,319,220
<b>Non-current assets:</b>		
Unconditional promises to give, long-term	250,000	-
Property and equipment, net	1,272,962	1,287,623
<b>Total assets</b>	\$ 3,004,409	\$ 2,606,843

**Liabilities and Net Assets**

<b>Current liabilities:</b>		
Accounts payable	\$ 86,667	\$ 124,132
Accrued expenses	375,043	536,912
<b>Total current liabilities</b>	461,710	661,044
<b>Net assets:</b>		
Unrestricted	1,953,949	1,906,384
Temporarily restricted	588,750	39,415
<b>Total net assets</b>	2,542,699	1,945,799
<b>Total liabilities and net assets</b>	\$ 3,004,409	\$ 2,606,843

See notes to financial statements.

**The Warren Center, Inc.**  
**Statement of Activities**  
**Year Ended August 31, 2017**  
**(with summarized comparative totals for 2016)**

	2017			2016
	Unrestricted	Temporarily Restricted	Totals	Total
<b>Revenue and support:</b>				
Program service fees, net	\$ 2,889,409	\$ -	\$ 2,889,409	\$ 2,597,273
Government grants	1,938,642	-	1,938,642	2,053,123
Contributions	463,768	588,750	1,052,518	451,302
Special events (net of direct costs of \$169,338)	268,204	-	268,204	276,951
Other revenue	2,147	-	2,147	21,366
Net assets released from restrictions	39,415	(39,415)	-	-
<b>Total revenue and support</b>	<b>5,601,585</b>	<b>549,335</b>	<b>6,150,920</b>	<b>5,400,015</b>
<b>Expenses:</b>				
Program services:				
Early Childhood Intervention	4,839,393	-	4,839,393	4,770,701
Family Outreach Support	19,001	-	19,001	71,747
Clinic Based Services	316,290	-	316,290	144,178
<b>Total program services</b>	<b>5,174,684</b>	<b>-</b>	<b>5,174,684</b>	<b>4,986,626</b>
Supporting services:				
Management and general	168,401	-	168,401	123,812
Fundraising	210,935	-	210,935	259,271
<b>Total supporting services</b>	<b>379,336</b>	<b>-</b>	<b>379,336</b>	<b>383,083</b>
<b>Total expenses</b>	<b>5,554,020</b>	<b>-</b>	<b>5,554,020</b>	<b>5,369,709</b>
<b>Increase in net assets</b>	<b>47,565</b>	<b>549,335</b>	<b>596,900</b>	<b>30,306</b>
<b>Net assets at beginning of year</b>	<b>1,906,384</b>	<b>39,415</b>	<b>1,945,799</b>	<b>1,915,493</b>
<b>Net assets at end of year</b>	<b>\$ 1,953,949</b>	<b>\$ 588,750</b>	<b>\$ 2,542,699</b>	<b>\$ 1,945,799</b>

See notes to financial statements.

**The Warren Center, Inc.**  
**Statement of Functional Expenses**  
**Year Ended August 31, 2017**  
**(with summarized comparative totals for 2016)**

	2017							2016	
	Program Services				Supporting Services			Total	Total
	Early Childhood Intervention	Family Outreach Support	Clinic Based Services	Total	Management and General	Fundraising	Total		
Salaries and other payroll costs	\$ 3,970,758	\$ 10,113	\$ 275,719	\$ 4,256,590	\$ 77,534	\$ 148,819	\$ 226,353	\$ 4,482,943	\$ 4,164,404
Retirement	16,653	63	790	17,506	230	529	759	18,265	72,864
Advertising and promotions	1,540	88	189	1,817	4,949	10,981	15,930	17,747	15,165
Occupancy	152,919	40	3,502	156,461	722	2,131	2,853	159,314	140,009
Contracted services	213,239	15	15,701	228,955	6,134	6,846	12,980	241,935	171,355
Insurance	19,149	-	871	20,020	127	380	507	20,527	13,344
Supplies and equipment	35,732	1,751	6,979	44,462	3,440	2,789	6,229	50,691	147,342
Travel	145,494	1,586	2,893	149,973	902	360	1,262	151,235	152,176
Professional fees	182,885	4,868	5,162	192,915	6,049	31,655	37,704	230,619	307,215
Special events	-	-	-	-	-	169,338	169,338	169,338	105,771
Office	22,930	11	10	22,951	541	1,373	1,914	24,865	18,400
Telephone	45,576	116	1,713	47,405	405	1,068	1,473	48,878	47,673
Dues and subscriptions	15,515	350	1,655	17,520	11,826	1,445	13,271	30,791	2,423
Depreciation	-	-	-	-	53,252	-	53,252	53,252	58,684
Other	17,003	-	1,106	18,109	2,290	2,559	4,849	22,958	58,655
<b>Total expenses</b>	<b>4,839,393</b>	<b>19,001</b>	<b>316,290</b>	<b>5,174,684</b>	<b>168,401</b>	<b>380,273</b>	<b>548,674</b>	<b>5,723,358</b>	<b>5,475,480</b>
<b>Less expenses included with revenues on the statement of activities</b>									
Direct costs of special events	-	-	-	-	-	(169,338)	(169,338)	(169,338)	(105,771)
<b>Total expenses included in the expense section on the statement of activities</b>	<b>\$ 4,839,393</b>	<b>\$ 19,001</b>	<b>\$ 316,290</b>	<b>\$ 5,174,684</b>	<b>\$ 168,401</b>	<b>\$ 210,935</b>	<b>\$ 379,336</b>	<b>\$ 5,554,020</b>	<b>\$ 5,369,709</b>
Functional expense as a percent of total expenses	87%	0%	6%	93%	3%	4%	7%	100%	

See notes to financial statements.

**The Warren Center, Inc.**  
**Statement of Cash Flows**  
**Years Ended August 31, 2017**  
**(with summarized comparative totals for 2016)**

	2017	2016
<b>Cash flows from operating activities:</b>		
Increase in net assets	\$ 596,900	\$ 30,306
Adjustments to reconcile increase in net assets to net cash provided (used) by operating activities:		
Depreciation	53,252	58,684
Allowance for doubtful accounts	637,719	272,179
Changes in assets and liabilities:		
Accounts receivable	(655,280)	51,414
Unconditional promises to give	(434,059)	(85,616)
Prepaid expenses	(5,448)	(8,662)
Accounts payable	(37,465)	(16,079)
Accrued expenses	(161,869)	(199,503)
<b>Net cash provided (used) by operating activities</b>	<b>(6,250)</b>	<b>102,723</b>
<b>Cash flows from investing activities:</b>		
Purchases of certificates of deposit	(239,840)	-
Purchases of property and equipment	(38,591)	(6,925)
<b>Net cash used in investing activities</b>	<b>(278,431)</b>	<b>(6,925)</b>
<b>Net increase (decrease) in cash</b>	<b>(284,681)</b>	<b>95,798</b>
<b>Cash at beginning of year</b>	<b>795,082</b>	<b>699,284</b>
<b>Cash at end of year</b>	<b>\$ 510,401</b>	<b>\$ 795,082</b>

See notes to financial statements.



# The Warren Center, Inc.

## Notes to Financial Statements

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### 1. Organization

The Warren Center, Inc. (Organization) was formed in 1968 as a Texas not-for-profit organization. The Organization was formed to assure that children with developmental differences or disabilities, and their families, receive the resources and support they need to reach their full potential. The Organization offers three types of services: early childhood intervention, for newborns to three-year olds, clinic based services, for children three to five years of age, and family outreach support. The Warren Center operates out of three locations: Richardson, Carrollton, and Garland.

The Organization is primarily supported by program service fees, government grants and contributions from individuals and other organizations.

### 2. Summary of Significant Accounting Policies

#### *Basis of Accounting*

The Organization prepares the financial statements on the accrual basis of accounting in accordance with U.S. generally accepted accounting principles (GAAP).

#### *Summarized Comparative Totals*

The accompanying financial statements include certain prior year summarized comparative information that does not include sufficient detail to constitute a presentation in conformity with GAAP. Accordingly, such information should be read in conjunction with the Organization's audited financial statements for the year ended August 31, 2016, from which the summarized information was derived.

#### *Financial Statement Presentation*

Net assets and revenues, expenses, gains and losses are classified based on the existence or absence of donor-imposed restrictions. Accordingly, net assets and changes therein are classified as follows:

*Unrestricted net assets* - Net assets not subject to donor-imposed stipulations.

*Temporarily restricted net assets* - Net assets subject to donor-imposed stipulations that will be met by actions of the Organization and/or the passage of time.

*Permanently restricted net assets* - Net assets subject to donor-imposed stipulations that will never lapse, thus requiring the funds to be maintained permanently by the Organization. Generally, the donors of these assets permit the Organization to use all or part of the income earned on related investments for

# The Warren Center, Inc.

## Notes to Financial Statements

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general or specific purposes. As of August 31, 2017, there were no permanently restricted net assets.

Revenues are reported as an increase in unrestricted net assets unless use of the related assets is limited by donor-imposed restrictions. Expenses are reported as decreases in unrestricted net assets. Gains and losses on assets or liabilities are reported as increases or decreases in unrestricted net assets unless their use is restricted by explicit donor stipulations or by law. Temporarily restricted contributions whose restrictions are met in the same year the contributions are received are reported as unrestricted net assets.

### ***Financial Instruments and Credit Risk Concentrations***

Financial instruments that potentially expose the Organization to concentrations of credit and market risk consist primarily of cash, certificates of deposit, accounts receivable, and unconditional promises to give.

The Organization places cash and certificates of deposit, which at times may exceed the federally insured limits, with high quality financial institutions to minimize risk. Accounts at each institute are insured by the Federal Deposit Insurance Corporation up to \$250,000. At August 31, 2017, the Organization's uninsured bank balances totaled \$325,531. The Organization has not experienced any losses on such assets.

Accounts receivable are unsecured and are due from government agencies and third-party payors. Unconditional promises to give (contributions receivable) are unsecured and are due from various donors. The Organization continually evaluates the collectability of accounts receivable and pledges receivable and maintains allowances for potential losses, if considered necessary.

A significant portion of revenue is received from Medicaid and the Texas Department of Health and Human Services (THHS). For the year ended August 31, 2017, revenue from Medicaid and THHS comprised 36% and 32%, respectively of total revenue. Continuation of such funding in future periods is subject to various factors such as economic conditions, compliance with laws and regulations and changes in legislation regarding health care and Medicaid.

### ***Certificates of Deposit***

The Organization has certificates of deposit with initial maturities of no more than one year. The certificates of deposit are reported at cost which approximates estimated fair value.

# The Warren Center, Inc.

## Notes to Financial Statements

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### ***Accounts Receivable***

The Organization maintains receivables due from government agencies and third-party payers for services performed. The Organization carries its accounts receivable due from third-party payers at standard charges, less an allowance for doubtful accounts and contractual adjustments. The allowance is determined by management based on the Organization's historical net collection percentages, specific patient circumstances and general economic conditions. For government grants and contracts, the excess of reimbursable expenditures over cash receipts is included in accounts receivable.

### ***Unconditional Promises to Give***

Unconditional promises to give, or pledges, which are expected to be collected within one year are recorded as support at net realizable value when the unconditional promise is made. Unconditional promises to give that are expected to be collected in future years are recorded as support at an amount that approximates the present value of their estimated future cash flows. Risk-free rates are used to discount long-term promises to give.

### ***Property and Equipment***

Property and equipment purchased by the Organization are recorded at cost or if acquired by gift, at fair market value at the date of the gift. The Organization follows the practice of capitalizing all expenditures for property and equipment in excess of \$5,000; the fair value of donated fixed assets is similarly capitalized. Depreciation is calculated using the straight-line method based upon the estimated useful lives of 3 to 40 years.

### ***Revenue Recognition***

Program service fees are reported at net realizable amounts from patients, third-party payers and others for services rendered. Accounts receivable and revenues are recorded when patient services are performed. Amounts received from third-party payers are different from established billing rates of the Organization, and these differences are accounted for as contractual allowances.

Government grant revenue is recognized as contract terms are fulfilled. Cost reimbursement contracts are recognized as revenue when the allowable costs are incurred. Fees for contract services are recognized as revenue when the contracted services are performed. If funds are received before the contract services are performed, the amounts received are accounted for as a refundable advance.

Contributions are recognized when cash, securities, other assets or an unconditional promise to give is received. Conditional promises to give are recognized when the conditions to which they are subject are met.

# The Warren Center, Inc.

## Notes to Financial Statements

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Donated materials and equipment are reflected as contributions at their estimated fair values at date of receipt. Contributions of services are recorded at estimated fair value if the services received create or enhance nonfinancial assets or require specialized skills and would typically need to be purchased if not provided by donation. Volunteers contribute significant amounts of time to the Organization; however, the financial statements do not reflect the value of these contributed services because they do not meet recognition criteria prescribed by GAAP.

### ***Allocation of Functional Expenses***

The costs of providing program services and supporting activities have been summarized on a functional basis in the statement of activities. The statement of functional expenses present the natural classification detail of expenses by function. Accordingly, certain costs have been allocated among the programs and supporting services benefited.

### ***Estimates and Assumptions***

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimated.

### ***Federal Income Tax***

The Organization is exempt from federal income taxes under Section 501(c)(3) of the Internal Revenue Code (IRC) and has not been classified as a private foundation as defined in the IRC. Income generated from activities unrelated to the Organization's exempt purposes is subject to tax under IRC Section 511. The Organization had no unrelated business income for the year ended August 31, 2017. Accordingly, no provision has been made for federal income tax in the accompanying financial statements.

GAAP requires the evaluation of tax positions taken in the course of preparing the Organization's tax returns and recognition of a tax liability (or asset) if the Organization has taken an uncertain position that more likely than not would not be sustained upon examination by the Internal Revenue Service. Management has analyzed the tax positions taken by the Organization, and has concluded that as of August 31, 2017, there are no uncertain tax positions taken or expected to be taken that would require recognition of a liability (or asset) or disclosure in the financial statements.

**The Warren Center, Inc.**  
**Notes to Financial Statements**

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### 3. Accounts Receivable

Accounts receivable consist of the following at August 31, 2017:

Federal and state grants	\$	153,963
Commercial insurance		789,544
Medicaid/CHIP		370,620
Clinic based services		182,618
Family cost share - ECI		123,179
		<u>1,619,924</u>
Less: allowance		<u>(1,269,538)</u>
	\$	<u>350,386</u>

### 4. Unconditional Promises to Give

As of August 31, 2017, unconditional promises to give are expected to be collected as follows:

Within one year	\$	311,745
One - two years		250,000
	\$	<u>561,745</u>

Due to current interest rates, the present value discount for unconditional promises to give due in more than one year is nominal. Of the total unconditional promises to give, approximately 80% was due from one donor at August 31, 2017.

### 5. Property and Equipment

Property and equipment consist of the following at August 31, 2017:

Building and improvements	\$	1,548,983
Land		133,856
Furniture and equipment		308,614
		<u>1,991,453</u>
Less: accumulated depreciation		<u>(718,491)</u>
	\$	<u>1,272,962</u>

Depreciation expense totaled \$53,252 for the year ended August 31, 2017.

**The Warren Center, Inc.**  
**Notes to Financial Statements**

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**6. Accrued Expenses**

Accrued expenses consist of the following at August 31, 2017:

Accrued wages	\$	192,865
401(k) payable - employer contribution		14,545
Accrued paid time off		161,742
Other		5,891
		<u>375,043</u>
	\$	<u>375,043</u>

**7. Line of Credit**

The Organization has a \$300,000 line of credit with a bank with interest at the bank's prime rate plus .75% (5.25% at August 31, 2017) maturing September 2018 collateralized by accounts receivable and other assets. No amounts were borrowed against the line during the year ended August 31, 2017.

**8. Temporarily Restricted Net Assets**

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

Early childhood intervention	\$	76,917
Clinic		29,467
Family education and support		12,867
Recess		3,333
Management and general		2,000
Development		833
Marketing		13,333
Time and program-Jonesville		450,000
		<u>588,750</u>
	\$	<u>588,750</u>

Net assets released from restrictions during the year ended August 31, 2017 were as follows:

Reflective supervision	\$	33,333
Facility improvements		6,082
		<u>39,415</u>
	\$	<u>39,415</u>

**The Warren Center, Inc.**  
**Notes to Financial Statements**

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**9. Retirement Plan**

The Organization sponsors a 401(k) plan that covers all full-time employees with more than one year of service. Employees may contribute a portion of their salary to the plan. Employees who have attained the age of 50 are eligible to make an additional catch-up contributions. Employer contributions to the plan are at the discretion of the board of directors. Employer contributions to the plan totaled \$14,545 for the year ended August 31, 2017.

**10. Leases**

The Organization has non-cancelable operating lease agreements that expire at various dates through 2023. The following is a schedule of required future minimum lease payments under these lease agreements for the years ending August 31:

2018	\$ 48,126
2019	49,355
2020	50,584
2021	51,812
2022	52,836
Thereafter	44,030

Rent expense totaled \$85,057 for the year ended August 31, 2017.

**11. Contract Compliance**

The Organization is responsible for compliance with provisions of contracts and grant agreements. Noncompliance could result in the disallowance of expenditures and a request for reimbursement. In the opinion of the Organization's management, such disallowance, if any, would not be significant to the Organization's financial statements.

**12. Related Party Transactions**

The Organization received contributions totaling \$60,530 during 2017 from members of the board of directors.

**13. Subsequent Events**

The Organization evaluated subsequent events after the statement of financial position date of August 31, 2017 through May 30, 2018, which was the date the financial statements were issued, and concluded that no additional disclosures are required.

**The Warren Center**  
**Schedule of Expenditures of Federal and State Awards**  
**Year Ended August 31, 2017**

Federal or State Grantor/Pass-Through Grantor/Program Title	CFDA Number	Pass-through grantor number	Expenditures
U.S. Department of Education:			
Texas Department of Assistive and Rehabilitative Services			
Special Education Grants for Infants and Families	84.181	5382001578	\$ 830,406
Special Education Grants to State	84.027	5382001578	<u>190,080</u>
Total U.S. Department of Education			1,020,486
U.S. Department of Health and Human Services:			
Texas Department of Assistive and Rehabilitative Services			
Temporary Assistance for Needy Families	93.558	5382001578	<u>287,117</u>
<b>Total expenditures of federal awards</b>			1,307,603
Texas Department of Assistive and Rehabilitative Services			
Early Childhood Intervention Services	N/A	5382001578	<u>631,039</u>
<b>Total expenditures of state awards</b>			631,039
<b>Total expenditures of federal and state awards</b>			<u><u>\$ 1,938,642</u></u>

See notes to schedule of expenditures of federal and state awards.



**The Warren Center**  
**Notes to Schedule of Expenditures of Federal and State Awards**  
**Year Ended August 31, 2017**

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**1. Basis of Presentation**

The accompanying schedule of expenditures of federal and state awards (Schedule) includes the federal and state grant activity of The Warren Center, Inc. (Organization). The information in the Schedule is presented in accordance with the requirements of Title 2 U.S. *Code of Federal Regulations Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Because the Schedule presents only a selected portion of the operations of the Organization, it is not intended to and does not present the financial position, changes in net assets, or cash flows of the Organization.

Expenditures reported on the Schedule are reported on the accrual basis of accounting. Such expenditures are recognized following the cost principles contained in the Uniform Guidance, wherein certain types of expenditures are not allowable or are limited as to reimbursement. The Organization has not elected to use the 10 percent de minimis indirect cost rate as allowed under the Uniform Guidance and continues to use the cost allocation plan negotiated individually with its grantors, as applicable.

**Independent Auditors' 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 of  
The Warren Center, Inc.

We have audited, in accordance with U.S. generally accepted auditing standards 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 Warren Center, Inc. (Organization) (a nonprofit organization), which comprise the statement of financial position as of August 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 30, 2018.

***Internal Control over Financial Reporting***

In planning and performing our audit of the financial statements, we considered the Organization'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 Organization's internal control. Accordingly, we do not express an opinion on the effectiveness of the Organization'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. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

We did identify a deficiency in internal control, described in the accompanying schedule of findings and questioned costs as item 2017-001 that we consider to be a significant deficiency.

### ***Compliance and Other Matters***

As part of obtaining reasonable assurance about whether the Organization'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*.

### ***The Warren Center's Response to Finding***

The Warren Center's response to the finding identified in our audit is described in the accompanying schedule of findings and questioned costs. The Warren Center's 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.



A Limited Liability Partnership

Arlington, Texas  
May 30, 2018

## **Independent Auditors' Report on Compliance for Each Major Federal Program and on Internal Control over Compliance Required by the Uniform Guidance**

To the Board of Directors of  
The Warren Center, Inc.

### ***Report on Compliance for Each Major Federal Program***

We have audited The Warren Center, Inc.'s (Organization) compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on each of the Organization's major federal programs for the year ended August 31, 2017. The Organization's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

### ***Management's Responsibility***

Management is responsible for compliance with federal statutes, regulations, and the terms and conditions of its federal awards applicable to its federal programs.

### ***Auditors' Responsibility***

Our responsibility is to express an opinion on compliance for each of the Organization's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with U.S. generally accepted auditing standards; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the audit requirements of Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the Organization's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination of the Organization's compliance.

### ***Opinion on Each Major Federal Program***

In our opinion, the Organization complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended August 31, 2017.

## ***Report on Internal Control over Compliance***

Management of the Organization 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 the Organization's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Organization's internal control over compliance.

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

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

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

*Sutton Frost Cary*

A Limited Liability Partnership

Arlington, Texas  
May 30, 2018

**The Warren Center**  
**Schedule of Findings and Questioned Costs**  
**Year Ended August 31, 2017**

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**Section I - Summary of Auditors' Results**

*Financial Statements*

Type of auditors' report issued:	Unmodified
Internal control over financial reporting:	
• Material weakness(es) identified?	<input type="checkbox"/> yes <input checked="" type="checkbox"/> no
• Significant deficiency(ies) identified?	<input checked="" type="checkbox"/> yes <input type="checkbox"/> none reported
Noncompliance material to financial statements noted?	<input type="checkbox"/> yes <input checked="" type="checkbox"/> no

*Federal Awards*

Internal control over major programs:	
• Material weakness(es) identified?	<input type="checkbox"/> yes <input checked="" type="checkbox"/> no
• Significant deficiency(ies) identified?	<input type="checkbox"/> yes <input checked="" type="checkbox"/> none reported

Type of auditors' report issued on compliance for major programs:	Unmodified
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Any audit findings disclosed that are required to be reported in accordance with 2 CFR 200.516(a)?	<input type="checkbox"/> yes <input checked="" type="checkbox"/> no
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Identification of major programs:

CFDA 84.181 Special Education Grants for Infants  
and Families

Dollar threshold used to distinguish between Type A and Type B programs:	\$750,000
-----------------------------------------------------------------------------	-----------

Auditee qualified as low-risk auditee?	<input type="checkbox"/> yes <input checked="" type="checkbox"/> no <sup>1</sup>
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<sup>1</sup> In order to meet the criteria for a low-risk auditee in the current year, the prior two years audits must have met the requirements of the Uniform Guidance, including report submission to the federal audit clearinghouse by the due date. The Warren Center, Inc. did not meet the criteria to qualify as a low-risk auditee because the data collection form and the reporting package for fiscal year ended August 31, 2015 was not submitted to the federal audit clearinghouse by the due date because of extenuating circumstances.

**The Warren Center**  
**Schedule of Findings and Questioned Costs**  
**Year Ended August 31, 2017**

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**Section II – Financial Statement Findings**

*Finding No. 2017-001: Revenue Recognition - significant deficiency*

Criteria or specific requirement: U.S. generally accepted accounting principles require contributions to be recognized as revenue when cash, other assets or an unconditional promise to give is received from a donor or grantor agency.

Condition: There was one instance of a long-term unconditional promise to give that was received during the year that was not recognized as a receivable and revenue in the proper accounting period.

Effect: As a result of not properly recognizing the transaction, revenue and assets were understated by a material amount.

Cause: There was not a full understanding of the basis of the transaction that resulted in the revenue being recorded incorrectly.

Recommendation: The Organization should analyze each grant award before recording to the general ledger. If a grant or contribution is unusual or infrequent, the Organization should find guidance to verify that the transaction and all of its elements are fully understood and the accounting treatment is proper.

Views of responsible officials: Management understands the need to fully analyze significant grant awards prior to recording to the general ledger. Based on the review of the Organization's current policy and clarification of the current guidance and industry practice, management concurs with the finding. Management has implemented internal control policies and procedures to evaluate grant agreements to determine proper revenue recognition.

**Section III - Federal Award Findings and Questioned Costs**

None

**Section IV - Summary of Prior Year Audit Findings**

None