

NORTH BAY CHILDREN'S CENTER, INC.

FINANCIAL STATEMENTS

FOR THE YEAR ENDED

JUNE 30, 2017

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INDEPENDENT AUDITOR'S REPORT

To the Board of Directors of
North Bay Children's Center, Inc.
Novato, California

Report on the Financial Statements

We have audited the accompanying financial statements of North Bay Children's Center, Inc., which comprise the statement of financial position as of June 30, 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 accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

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

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

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



Goranson and Associates, Inc.

717 College Avenue, First Floor, Santa Rosa, CA 95404 Phone: 707/542-1256 Fax 707/978-3090

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of North Bay Children's Center, Inc. as of June 30, 2017, and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Report on Summarized Comparative Information

We have previously audited the North Bay Children's Center, Inc.'s financial statements for the year ended June 30, 2016, and we expressed an unmodified audit opinion on those audited financial statements in our report dated December 15, 2016. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2016, is consistent, in all material respects, with the audited financial statements from which it has been derived.

Goranson and Associates, Inc.

December 13, 2017

Santa Rosa, California

NORTH BAY CHILDREN'S CENTER, INC.
STATEMENT OF FINANCIAL POSITION
JUNE 30, 2017
(With summarized comparative totals for June 30, 2016)

	2017	2016
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 289,140	\$ 309,256
Accounts receivable	80,000	44,976
Contracts receivable	328,407	220,052
Pledges receivable	90,821	50,892
Prepaid expenses and deposits	51,850	41,965
Total current assets	840,218	667,141
Property and equipment:		
Land and buildings	1,687,867	1,681,320
Construction in process	61,032	46,219
Equipment	191,861	191,861
Subtotal	1,940,760	1,919,400
Less accumulated depreciation	(979,779)	(920,795)
Net property and equipment	960,981	998,605
Non current assets		
Long term pledges	-	56,958
Total assets	\$ 1,801,199	\$ 1,722,704
LIABILITIES AND NET ASSETS		
Current liabilities:		
Accounts payable	\$ 298,288	\$ 178,020
Accrued personnel costs	182,590	168,258
Deferred revenue	22,492	902
Line of credit	-	100,000
Total current liabilities	503,370	447,180
Total liabilities	503,370	447,180
Net assets:		
Unrestricted	1,148,298	1,057,358
Temporarily restricted	149,531	218,166
Total net assets	1,297,829	1,275,524
Total liabilities and net assets	\$ 1,801,199	\$ 1,722,704

The accompanying notes are an integral part of these financial statements

NORTH BAY CHILDREN'S CENTER, INC.
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2017
(With summarized comparative totals for the year ended June 30, 2016)

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>2017 Total</u>	<u>2016 Total</u>
SUPPORT AND REVENUE:				
Family fees	\$ 974,106		\$ 974,106	\$ 911,160
State apportionments	2,093,607		2,093,607	1,734,861
Child care food program	83,733		83,733	92,371
Grants and contracts	490,747	\$ 2,606	493,353	418,714
Contributions	94,165	-	94,165	143,083
Capital campaign contributions	-	25,511	25,511	196,400
Special events, net of \$68,708 expense	161,664	22,600	184,264	144,925
Other revenue	305	-	305	536
Net assets released from restriction	87,551	(87,551)	-	-
Total revenue and support	<u>3,985,878</u>	<u>(36,834)</u>	<u>3,949,044</u>	<u>3,642,050</u>
EXPENSES:				
Program services	3,194,710		3,194,710	2,745,327
Management	496,145		496,145	451,464
Fundraising	189,993		189,993	278,936
Capital campaign	45,891		45,891	28,770
Total expenses	<u>3,926,739</u>	<u>-</u>	<u>3,926,739</u>	<u>3,504,497</u>
CHANGE IN NET ASSETS:	59,139	(36,834)	22,305	137,553
NET ASSETS, beginning of year	1,089,159	186,365	1,275,524	1,116,491
Net change in government owned assets	<u>-</u>	<u>-</u>	<u>-</u>	<u>21,480</u>
NET ASSETS, end of year	<u>\$ 1,148,298</u>	<u>\$ 149,531</u>	<u>\$ 1,297,829</u>	<u>\$ 1,275,524</u>

The accompanying notes are an integral part of these financial statements

NORTH BAY CHILDREN'S CENTER, INC.
STATEMENT OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED JUNE 30, 2017

(With summarized comparative totals for the year ended June 30, 2016)

	Child Care	Other Programs	Total Program	Management and General	Fundraising	Capital Campaign	2017 Total	2016 Total
Salaries and wages	\$ 1,986,674	\$ 162,197	\$ 2,148,871	\$ 296,994	\$ 125,482	\$ 31,365	\$ 2,602,712	\$ 2,274,696
Payroll tax expense	163,651	22,286	185,937	28,353	12,655	-	226,945	195,816
Employee benefits	170,419	1,376	171,795	41,803	9,647	-	223,245	210,038
Occupancy	132,511	56,974	189,485	16,855	-	-	206,340	149,266
Consultants and contractors	10,449	7,461	17,910	51,487	1,631	10,750	81,778	83,081
Supplies and equipment	251,638	10,027	261,665	12,523	21,480	1,730	297,398	148,642
Depreciation	55,521	3,462	58,983	-	-	-	58,983	60,962
Food	65,744	2,171	67,915	-	-	-	67,915	65,571
Telephone	23,735	4,853	28,588	4,434	-	-	33,022	26,105
Insurance	29,510	3,589	33,099	-	-	-	33,099	30,926
Advertising and marketing	4,365	204	4,569	735	15,427	1,894	22,625	19,776
Field trips	329	716	1,045	-	-	-	1,045	3,540
Interest expense	-	-	-	22,301	37	50	22,388	18,222
Travel	4,965	1,566	6,531	5,908	198	-	12,637	11,407
Other operating expenses	13,215	5,102	18,317	14,752	3,436	102	36,607	206,449
Total expense	<u>\$ 2,912,726</u>	<u>\$ 281,984</u>	<u>\$ 3,194,710</u>	<u>\$ 496,145</u>	<u>\$ 189,993</u>	<u>\$ 45,891</u>	<u>\$ 3,926,739</u>	<u>\$ 3,504,497</u>

The accompanying notes are an integral part of these financial statements

NORTH BAY CHILDREN'S CENTER, INC.
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED JUNE 30, 2017
(With summarized comparative totals for the year ended June 30, 2016)

	<u>2017</u>	<u>2016</u>
CASH FLOWS FROM OPERATING ACTIVITIES:		
Change in net assets	\$ 22,305	\$ 137,553
Adjustments to reconcile change in net assets to cash from operations		
Depreciation and amortization	58,983	60,962
(Increase) decrease in:		
Accounts receivable	(35,023)	36,944
Contracts receivable	(108,355)	(76,557)
Pledges receivable	17,029	(94,150)
Prepaid expenses	(9,885)	8,107
Increase (decrease) in:		
Accounts payable	120,268	80,140
Accrued expenses	14,332	10,384
Deferred revenue	21,590	(14,098)
Total cash provided by operations	<u>101,244</u>	<u>149,285</u>
CASH FLOWS FROM INVESTING ACTIVITIES:		
Net purchase of capital assets	<u>(21,360)</u>	<u>(42,085)</u>
CASH FLOWS FROM FINANCING ACTIVITIES:		
Proceeds (payments) from line of credit	(100,000)	100,000
Principal payments on long-term debt	<u>-</u>	<u>(7,618)</u>
Total cash provided by (used) by financing	<u>(100,000)</u>	<u>92,382</u>
NET CHANGE IN CASH	(20,116)	199,582
CASH, beginning of year	<u>309,256</u>	<u>109,674</u>
CASH, end of year	<u>\$ 289,140</u>	<u>\$ 309,256</u>
Supplemental information:		
Cash paid for interest	<u>\$ 22,388</u>	<u>\$ 18,222</u>

The accompanying notes are an integral part of these financial statements

NORTH BAY CHILDREN'S CENTER, INC.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2017

NOTE 1 ORGANIZATION

North Bay Children's Center, Inc. (Center) is a non-profit, community-supported organization founded in 1986 to provide a nurturing environment for children that fosters their emotional, intellectual, social, and physical well-being. The Center's primary mission is to provide quality child development programs that focus on school readiness, as well as family support programs that promote self-sufficiency, health and nutrition, and access to additional educational resources. The Center believes that the three most important components of a high-quality child care program are: age-appropriate curriculum that nurtures and supports child development; strong partnership with parents; and experienced professionals who understand how children grow and develop.

In addition to the full-day, year-round child care services for children from birth through age five, and after school care for children from five through age eight, the Center has created wonderfully unique educational programs with the help of the community at large. The Center serves children from Marin County and Sonoma County, with two campuses in Novato, three in Petaluma, six in Santa Rosa, and one in Sonoma.

All of the Center's sites include the Garden of Eatin' health and nutrition program which not only brings the joy of gardening to the children's lives, but enables the Center to teach and develop healthy eating habits through the meal programs by incorporating the Center's own garden fresh fruits and vegetables into the daily meal programs and partnering with community partners for healthy living.

The Center is funded by the California Department of Education, public and private grants, family fees, and contributions.

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation – The Center reports information regarding its financial position and activities on an accrual basis according to three classes of net assets: unrestricted, temporarily restricted, and permanently restricted.

Unrestricted Net Assets – Net assets that are not subject to donor-imposed restrictions. These also may be designated for specific purposes by action of the Board of Directors.

Temporarily Restricted Net Assets – Net assets that are subject to donor-imposed stipulations that may be fulfilled by actions of the Center to meet the stipulations or that become unrestricted at the date specified by the donor.

NORTH BAY CHILDREN'S CENTER, INC.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2017

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, continued

Basis of Presentation, continued –

Permanently Restricted Net Assets – Net assets subject to donor-imposed stipulations that they be retained and invested permanently by the Center to use all or part of the investment return on these net assets for specified or unspecified purposes.

Net assets released from restriction – Temporarily restricted net assets are “released” to unrestricted net assets when the donor-stipulated purpose has been fulfilled and/or the stipulated time period has elapsed.

Other Basis of Presentation Policies – Revenues or support are reported as increases in unrestricted net assets unless subject to donor-imposed restrictions. If temporary restrictions are fulfilled in the same time period the revenue or support is received, the Center reports the revenue or support as unrestricted. Expenses are reported as decreases in unrestricted net assets. Gains and losses on investments and other assets or liabilities are reported as increases or decreases in unrestricted net assets unless restricted by explicit donor stipulation or by law.

Cash and Cash Equivalents – Cash equivalents consist primarily of money market accounts and other investments with an original maturity of ninety days or less.

Concentrations of Credit Risk – The Center maintains cash balances at local financial institutions insured by the Federal Deposit Insurance Corporation (FDIC) up to \$250,000 per account holder. The Center did not exceed the FDIC limit at June 30, 2017.

Fair Value Measures – The Center reports its fair value measures by using a fair value hierarchy defined by generally accepted accounting principles (GAAP) that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest ranking to fair values determined using unadjusted quoted prices in active markets for identical assets and liabilities (Level 1) and the lowest ranking to fair values determined using methodologies and models with unobservable inputs (Level 3).

NORTH BAY CHILDREN'S CENTER, INC.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2017

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, continued

Fair Value Measurements, continued – The three levels of the fair value hierarchy under GAAP are:

Level 1 – Unadjusted quoted prices in active markets accessible at the measurement date for identical, unrestricted assets or liabilities.

Level 2 – Quoted prices for similar assets or liabilities in active markets, quoted prices for identical or similar assets or liabilities in markets that are not active, or inputs that are observable, either directly or indirectly, for substantially the full term of the asset or liability.

Level 3 – Prices for valuation techniques that require inputs that are both significant to the fair value measurement and unobservable (inputs are supported by little or no market activity).

Accounts Receivable and Contracts Receivable – The Center considers accounts receivable and contracts receivable to be fully collectible; accordingly, no allowances for doubtful accounts is required. If amounts do become uncollectible, they are charged to operations when the determination is made.

Pledges Receivable – The Center is in the early stages of a capital campaign and has received small pledges towards the campaign. Management considers them collectible; accordingly, no allowance for doubtful accounts is required.

Property and equipment – The Center records purchased property and equipment at cost and donated fixed assets are recorded at fair value at the date received. The Center capitalized all assets over \$5,000. Assets purchased with government grant or contract funds are subject to certain restrictions for which depreciation may not be claimed against child development contracts. Assets purchased with government funds remain the property of the government for the life of the asset. The Center holds these assets in trust for the government and, therefore, the assets have been recorded on the statement of financial position. Purchases of those assets are recorded as expenses of the appropriate government program. Assets purchased with non-governmental funds are depreciated using the straight-line method over their estimated useful lives of the respective assets. Estimated useful lives range from three to thirty years.

Deferred Revenue – Deferred revenue consists of amounts received but not yet spent under governmental grants and contracts.

NORTH BAY CHILDREN'S CENTER, INC.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2017

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, continued

Income Taxes – The Center is exempt from Federal and State Income taxes under Internal Revenue Code Section 501(c)(3) and California Franchise Tax Board Code Section 23701(d). Therefore, no provision for income taxes has been made in the accompanying financial statements. In addition, the Internal Revenue Service has determined the Center is not a “private foundation” within the meaning of Section 509(a) of the Internal Revenue Code.

Management of the Center considers the likelihood of changes by taxing authorities in its filed tax returns and recognizes a liability for or discloses potential significant changes if management believes it is more likely than not for a change to occur, including changes to the Center’s status as a not-for-profit entity. Management believes the Center met the requirements to maintain its tax-exempt status and has not income subject to unrelated business income tax; therefore no provision for income taxes has been provided in these financial statements. The Center’s tax returns for the past three years are subject to examination by tax authorities, and may change upon examination.

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 these estimates.

Functional Allocation of Expenses – The costs of providing the various programs and other activities have been summarized on a functional basis in the Statement of Activities. Accordingly, certain costs have been allocated among the programs and supporting services.

Summarized Financial Information – The financial statements include certain prior year summarized comparative information in total but not by net asset class. Such information does not include sufficient detail to constitute a presentation in conformity with accounting principles generally accepted in the United States of America. Accordingly, such information should be read in conjunction with the Center’s financial statements for the year ended June 30, 2016, from which the summarized information was derived.

NORTH BAY CHILDREN'S CENTER, INC.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2017

NOTE 3 CONTRACTS RECEIVABLE

Contracts receivable at June 30, 2017 consists of the following:

Bellevue Union School District	\$ 155,655
Santa Rosa City Schools	47,579
Sonoma Valley Unified School District	17,845
Other contracts	89,610
California Department of Education	3,060
Child Care Food Program	14,658
Total	<u>\$ 328,407</u>

NOTE 4 ACCUMULATED VACATION AND SICK LEAVE

Accumulated unpaid employee vacation benefits are recognized as liabilities of the Center. The value of accumulated vacation at June 30, 2017 is \$70,668.

Sick leave benefits are accumulated for each employee. The employees do not gain a vested right to accumulated sick leave. Accumulated employee sick leave benefits are not recognized as liabilities of the Center since payment of such benefits is not probable. Therefore, sick leave benefits are recorded as expenses in the period sick leaves are taken.

NOTE 5 LINE OF CREDIT

The Center has available a \$ 350,000 line of credit, with interest at the bank's prime rate plus 3.5 percent and is secured by accounts and equipment. The line matures March 2018. There is no balance at June 30, 2017.

NORTH BAY CHILDREN'S CENTER, INC.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2017

NOTE 6 TEMPORARILY RESTRICTED NET ASSETS

Temporarily restricted net assets are as follows as June 30, 2017:

Restricted for program/time purposes:

Capital campaign	\$ 102,845
Tuscany sponsorship	22,600
Other programs	<u>2,606</u>
Total restricted for program purposes	128,051

Restricted capital assets

CDE restricted	<u>21,480</u>
Total restricted capital assets	<u>21,480</u>
Total temporarily restricted net assets	<u><u>\$ 149,531</u></u>

NOTE 7 COMMITMENTS UNDER OPERATING LEASE

The Center leases one of its Novato campuses under a lease that commenced August 2004 and terminates July 2014. There are two extensions allowed to July 31, 2024. Annual rent is \$1. The value of the lease is \$50,325 annually and has been recorded into the financials appropriately.

The Center leases its two Petaluma campuses under a lease that commenced September 2007, and has been extended to August 2017. Monthly rent is \$339 for both sites.

The Center leases its two Santa Rosa campuses under an annual operating lease. Lease expense is \$1,480 per month for both sites.

Rent expense for the year ended June 30, 2017 is \$30,026.

Future minimum rental lease payments are as follows:

2018	\$ 1
2019	1
2020	1
2021	1
2022	1
Thereafter	<u>2</u>
Total	<u><u>\$ 7</u></u>

NORTH BAY CHILDREN'S CENTER, INC.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2017

NOTE 8 CAPITAL CAMPAIGN

In 2016 the Center launched a \$7.5 million capital campaign to replace its modular structures with a new state of the art building and playscapes that will transform its C street property into a vibrant, nurturing, contemporary, early learning campus. The entire 1.5-acre campus will be wrapped in an eco-friendly design that maximizes energy utilization, reduces operating costs, and includes a technology infrastructure to accommodate today's learning tools and tomorrow's innovations. The new Campus will not only address the limitations of the Center's existing facilities, it will position the Center to advance its mission and vision for the future. The goal to complete the Bright Futures Capital Campaign and construction of the new campus by December 31, 2020.

Cumulative revenue of the Campaign	\$ 359,963
Cumulative prior expenses of the Campaign	(198,567)
Campaign expenses for the year ended 06/30/2017	<u>(58,551)</u>
Amount restricted for future Campaign expenses	<u><u>\$ 102,845</u></u>

NOTE 9 AUDIT FEE

Audit fees of \$13,000 for the year ended June 30, 2017, have been expensed in the fiscal year ended June 30, 2017 as allowed by grantor agencies. This is not in accordance with generally accepted accounting principles, but is not considered material in relationship to the Center taken as a whole. The California State Legislature mandates the California Department of Education (CDE) responsibility for ensuring that audit fees are disclosed annually in the Center's audit report.

NOTE 10 CONCENTRATION OF CREDIT RISK

The Center receives fifty-six percent of total support and revenue from contracts with the California Department of Education and corresponding family fees required with the contracts. A significant reduction in the level of this support, should it occur, may have an effect on their programs.

NOTE 11 SUBSEQUENT EVENTS

The Center has evaluated subsequent events through December 13, 2017, the date the financial statements were available to be issued, and determined that there were no events occurring subsequent to June 30, 2017 that would have a material impact on the Center's results of operations or financial position.