

NORTH BAY CHILDREN'S CENTER, INC.

FINANCIAL STATEMENTS

FOR THE YEAR ENDED

JUNE 30, 2019

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INDEPENDENT AUDITOR'S REPORT

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

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, 2019, 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, 2019, 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, 2018, and we expressed an unmodified audit opinion on those audited financial statements in our report dated December 12, 2018. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2018, is consistent, in all material respects, with the audited financial statements from which it has been derived.

Goranson and Associates, Inc.

December 4, 2019

Santa Rosa, CA

NORTH BAY CHILDREN'S CENTER, INC.
STATEMENT OF FINANCIAL POSITION
JUNE 30, 2019
(With summarized comparative totals for June 30, 2018)

	2019	2018
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 836,525	\$ 415,341
Accounts receivable	66,393	9,350
Contracts receivable	641,068	372,427
Pledges receivable	85,953	131,497
Prepaid expenses and deposits	44,848	58,400
Total current assets	1,674,787	987,015
Property and equipment:		
Land and buildings	1,669,802	1,687,867
Construction in process	1,006,680	129,424
Equipment	237,711	191,861
Subtotal	2,914,193	2,009,152
Less accumulated depreciation	(1,067,464)	(1,038,236)
Net property and equipment	1,846,729	970,916
Total assets	\$ 3,521,516	\$ 1,957,931
LIABILITIES AND NET ASSETS		
Current liabilities:		
Accounts payable	\$ 287,342	\$ 326,434
Accrued personnel costs	234,866	195,447
Deferred revenue	-	3,409
Line of credit	184,000	125,000
Total current liabilities	706,208	650,290
Total liabilities	706,208	650,290
Net assets:		
Without restriction	2,415,234	1,114,982
With donor restriction	400,074	192,659
Total net assets	2,815,308	1,307,641
Total liabilities and net assets	\$ 3,521,516	\$ 1,957,931

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, 2019
(With summarized comparative totals for the year ended June 30, 2018)

	<u>Without restriction</u>	<u>With donor restriction</u>	<u>2019 Total</u>	<u>2018 Total</u>
SUPPORT AND REVENUE:				
Family fees	\$ 750,523		\$ 750,523	\$ 795,625
State apportionments	3,497,144		3,497,144	2,893,602
Child care food program	61,916		61,916	73,295
Grants and contracts	399,335	\$ 49,650	448,985	331,506
Contributions	36,462	-	36,462	214,223
Capital campaign contributions	-	1,186,327	1,186,327	150,813
Special events, net of \$218,062 expense	169,852	11,000	180,852	196,448
Other revenue	146,000	-	146,000	344
Net assets released from restriction	<u>1,039,562</u>	<u>(1,039,562)</u>	<u>-</u>	<u>-</u>
Total revenue and support	<u>6,100,794</u>	<u>207,415</u>	<u>6,308,209</u>	<u>4,655,856</u>
EXPENSES:				
Program services	4,031,536		4,031,536	3,802,001
Management	682,750		682,750	627,557
Fundraising	52,964		52,964	153,767
Capital campaign	<u>33,292</u>		<u>33,292</u>	<u>62,719</u>
Total expenses	<u>4,800,542</u>		<u>4,800,542</u>	<u>4,646,044</u>
CHANGE IN NET ASSETS:	1,300,252	207,415	1,507,667	9,812
NET ASSETS, beginning of year	<u>1,114,982</u>	<u>192,659</u>	<u>1,307,641</u>	<u>1,297,829</u>
NET ASSETS, end of year	<u>\$ 2,415,234</u>	<u>\$ 400,074</u>	<u>\$ 2,815,308</u>	<u>\$ 1,307,641</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, 2019

(With summarized comparative totals for the year ended June 30, 2018)

	Child Care	Other Programs	Total Program	Management and General	Fundraising	Capital Campaign	2019 Total	2018 Total
Salaries and wages	\$ 2,655,334	\$ 71,104	\$ 2,726,438	\$ 341,828	\$ 51,761	\$ 31,365	\$ 3,151,392	\$ 3,165,496
Payroll tax expense	222,089	6,029	228,118	25,433	1,183	-	254,734	245,810
Employee benefits	323,142	11,111	334,253	(17,699)	20	-	316,574	279,280
Occupancy	93,173	3,038	96,211	333	-	-	96,544	202,608
Consultants and contractors	11,900		11,900	46,962	-	700	59,562	141,850
Supplies and equipment	95,699	14,285	109,983	9,908	-	-	119,891	178,314
Depreciation	-		-	36,158	-	-	36,158	58,457
Food	77,282	1,262	78,544	-	-	-	78,544	68,283
Telephone	33,759	4,435	38,193	1,995	-	-	40,188	35,837
Insurance	28,931	1,481	30,411	5,396	-	-	35,808	38,012
Advertising and marketing	319	15	334	1,040	-	-	1,374	18,871
Interest expense	10		10	14,611	-	-	14,621	16,722
Travel	6,206	50	6,256	7,152	-	-	13,408	14,459
Other operating expenses	370,484	400	370,884	209,632	-	1,227	581,743	182,045
Total expense	<u>\$ 3,918,327</u>	<u>\$ 113,209</u>	<u>\$ 4,031,536</u>	<u>\$ 682,750</u>	<u>\$ 52,964</u>	<u>\$ 33,292</u>	<u>\$ 4,800,542</u>	<u>\$ 4,646,044</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, 2019
(With summarized comparative totals for the year ended June 30, 2018)

	<u>2019</u>	<u>2018</u>
CASH FLOWS FROM OPERATING ACTIVITIES:		
Change in net assets	\$ 1,507,667	\$ 9,812
Adjustments to reconcile change in net assets to cash from operations		
Depreciation and amortization	36,158	58,457
(Increase) decrease in:		
Accounts receivable	(57,042)	70,651
Contracts receivable	(268,642)	(44,021)
Pledges receivable	45,544	(40,676)
Prepaid expenses	13,552	(6,550)
Increase (decrease) in:		
Accounts payable	(39,092)	28,146
Accrued expenses	39,419	12,857
Deferred revenue	(3,409)	(19,083)
Total cash provided by operations	<u>1,274,155</u>	<u>69,593</u>
CASH FLOWS FROM INVESTING ACTIVITIES:		
Net purchase of capital assets	<u>(911,971)</u>	<u>(68,392)</u>
CASH FLOWS FROM FINANCING ACTIVITIES:		
Proceeds from line of credit	<u>59,000</u>	<u>125,000</u>
NET CHANGE IN CASH	421,184	126,201
CASH, beginning of year	<u>415,341</u>	<u>289,140</u>
CASH, end of year	<u>\$ 836,525</u>	<u>\$ 415,341</u>
Supplemental information:		
Cash paid for interest	<u>\$ 14,621</u>	<u>\$ 16,722</u>

The accompanying notes are an integral part of these financial statements

NORTH BAY CHILDREN'S CENTER, INC.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2019

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 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 childcare 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, one in Sonoma, and one in Healdsburg.

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 two classes of net assets: net assets without donor restriction and net assets with donor restriction.

Net assets without donor restriction – 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.

Net assets with donor restriction – 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 net assets without donor restriction at the date specified by the donor.

NORTH BAY CHILDREN'S CENTER, INC.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2019

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, continued

Net assets released from donor restriction – Net assets with donor restriction are “released” to net assets without donor restriction 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 net assets without restriction unless subject to donor-imposed restrictions. If net assets with restrictions are fulfilled in the same time period the revenue or support is received, the Center reports the revenue or support as without donor restriction. Expenses are reported as decreases in net assets without restrictions. Gains and losses on investments and other assets or liabilities are reported as increases or decreases in net assets without donation 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 has \$495,188 over the FDIC limit at June 30, 2019.

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).

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).

NORTH BAY CHILDREN'S CENTER, INC.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2019

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, continued

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 a capital campaign and has received 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.

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.

NORTH BAY CHILDREN'S CENTER, INC.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2019

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, continued

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.

Allocation Methodology – The Center allocates program expenses that can be specifically identified with a program directly to such program. In instances where a direct program expense benefits more than one program, the Center allocates the expense amongst the benefitting programs using a base that reflects how the cost benefits each program.

Reclassifications – Certain prior year amounts have been reclassified for consistency with the current period presentation. These reclassifications had no effect on the reported results of operations

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, 2018, from which the summarized information was derived.

NORTH BAY CHILDREN'S CENTER, INC.
 NOTES TO FINANCIAL STATEMENTS
 JUNE 30, 2019

NOTE 3 LIQUIDITY

The following reflects the Center's financial assets as of June 30, 2019 that are available for operations. The Center's restrictions come from donor restricted funds based on time and program as well as restricted fixed assets.

Financial assets at June 30, 2019	
Cash and cash equivalents	\$ 836,525
Accounts and contracts receivable	707,461
Pledges receivable	85,953
Less financial assets with donor restrictions, net of restricted fixed assets	(359,044)
Total financial assets available to meet cash needs for general expenditures within one year	\$ 1,270,895

NOTE 4 CONTRACTS RECEIVABLE

Contracts receivable at June 30, 2019 consists of the following:

Santa Rosa City Schools	\$ 115,576
California Department of Education	127,936
Community Action Marin	137,495
Bellevue Union School District	73,030
Healdsburg Unified School District	66,425
Unrestricted	35,000
Sonoma Unified School District	31,645
Marin Child Care Council	20,982
Other contracts	17,600
Child Care Food Program	15,379
Total	\$ 641,068

NORTH BAY CHILDREN'S CENTER, INC.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2019

NOTE 5 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, 2019 is \$97,210.

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 6 LINE OF CREDIT

The Center has available a \$ 350,000 line of credit, with interest at 5.75 percent until March 2019, then increased to 6.50 percent and is secured by accounts and equipment. The line matures March 2020. There is \$184,000 balance at June 30, 2019.

NOTE 7 NET ASSETS WITH RESTRICTIONS

Net assets with restrictions are as follows as June 30, 2019:

Restricted for program/time purposes:	
Capital campaign	\$ 298,394
Tuscany sponsorship	11,000
Other programs	<u>49,650</u>
Total restricted for program purposes	359,044
Restricted capital assets	
CDE restricted	<u>41,030</u>
Total restricted capital assets	<u>41,030</u>
Total net assets - donor restricted	<u><u>\$ 400,074</u></u>

NORTH BAY CHILDREN'S CENTER, INC.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2019

NOTE 8 COMMITMENTS UNDER OPERATING LEASE

The Center leases one of its Novato campuses under a lease that commenced August 2015 and terminates May 2025. 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 July 2017 and matures June 2022. Monthly rent is \$3,038 for both sites.

The Center leases modular classrooms beginning January 14, 2019 and terminating January 14, 2021. Monthly rent is \$3,915 for all four classrooms.

Rent expense for the year ended June 30, 2019 is \$49,140.

Future minimum rental lease payments are as follows:

2020	\$ 89,281
2021	71,647
2022	54,001
2023	1
2024	1
Thereafter	1

NOTE 9 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 March 2021.

Cumulative revenue of the Campaign	\$ 1,656,290
Cumulative prior expenses of the Campaign	(381,859)
Campaign expenses for the year ended 06/30/2019	(976,037)
Amount restricted for future Campaign expenses	\$ 298,394

NORTH BAY CHILDREN'S CENTER, INC.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2019

NOTE 10 AUDIT FEES

Audit fees of \$14,000 for the year ended June 30, 2019, have been expensed in the fiscal year ended June 30, 2019 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 11 CONCENTRATION OF CREDIT RISK

The Center receives 57 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 12 CHANGE IN ACCOUNTING PRINCIPLE

The financial statements have been changed to adopt ASU 2018-08, Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made. ASU 2018-08 includes specific criteria to consider when determining whether a contract or agreement should be accounted for as a contribution or as an exchange transaction. It also provides a framework for determining whether a contribution is conditional or unconditional which will impact the timing of revenue recognition. This change has been applied to both the current year and the prior year summarized information.

NOTE 13 SUBSEQUENT EVENTS

The Center has evaluated subsequent events through December 4, 2019, the date the financial statements were available to be issued and determined that there were no events occurring subsequent to June 30, 2019 that would have a material impact on the Center's results of operations or financial position.