

Educational Child Care Center, Inc.

Financial Report
For the Year Ended September 30, 2019

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Independent Accountants' Review Report

To the Board of Directors
Educational Child Care Center, Inc.
Lansing, Michigan

We have reviewed the accompanying financial statements of Educational Child Care Center, Inc. (a nonprofit organization), which comprise the statement of financial position as of September 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. A review includes primarily applying analytical procedures to management's financial data and making inquiries of management. A review is substantially less in scope than an audit, the objective of which is the expression of an opinion regarding the financial statements as a whole. Accordingly, we do not express such an opinion.

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.

Accountants' Responsibility

Our responsibility is to conduct the review engagement in accordance with Statements on Standards for Accounting and Review Services promulgated by the Accounting and Review Services Committee of the AICPA. Those standards require us to perform procedures to obtain limited assurance as a basis for reporting whether we are aware of any material modifications that should be made to the financial statements for them to be in accordance with accounting principles generally accepted in the United States of America. We believe that the results of our procedures provide a reasonable basis for our conclusion.

Accountants' Conclusion

Based on our review, we are not aware of any material modifications that should be made to the accompanying financial statements in order for them to be in conformity with accounting principles generally accepted in the United States of America.

Adoption of New Accounting Standards

As described in Note 1 to the financial statements, the Organization changed its method of accounting for net assets, investment expense, and functional expenses in 2019 as required by the provisions of FASB Accounting Standards Update 2016-14 *Presentation of Financial Statements of Not-for-Profit Entities*. Our opinion is not modified with respect to that matter.

Yeo & Yeo, P.C.

Lansing, Michigan
January 8, 2020

Educational Child Care Center, Inc.
Statement of Financial Position
September 30, 2019

Assets

Current Assets	
Cash	\$ 103,517
Accounts receivable	26,612
Total Current Assets	130,129
Property and Equipment, net	361,239
Total Assets	\$ 491,368

Liabilities and Net Assets

Current Liabilities	
Accounts payable	\$ 29,835
Deferred revenue	59,490
Accrued wages	126,161
Accrued paid time off	55,382
Line of credit	12,800
Current portion of long-term debt	14,882
Other current liabilities	3,944
Total Current Liabilities	302,494
Long-term Debt, net of current portion	249,051
Total Liabilities	551,545
Net Assets	
Without donor restrictions	(68,182)
With donor restrictions	8,005
Total Net Assets	(60,177)
Total Liabilities and Net Assets	\$ 491,368

Educational Child Care Center, Inc.
Statement of Activities
For the Year Ended September 30, 2019

	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Total</u>
Revenues, Contributions, Other Support			
Support:			
Grants and contributions	\$ 577,715	\$ 7,145	\$ 584,860
Tuition and related	2,074,018	-	2,074,018
Processing charges	8,808	-	8,808
Interest income	31	-	31
Fundraising, net of direct expenses	23,149	-	23,149
	<hr/>	<hr/>	<hr/>
Total Revenue, Contributions, and Other Support	2,683,721	7,145	2,690,866
Net Asset Restriction Transfers			
Revenue released from restriction	5,833	(5,833)	-
	<hr/>	<hr/>	<hr/>
Total Revenue	2,689,554	1,312	2,690,866
Expenses			
Program services	2,222,768	-	2,222,768
Management and general	444,700	-	444,700
Fundraising	25,829	-	25,829
	<hr/>	<hr/>	<hr/>
Total expenses	2,693,297	-	2,693,297
	<hr/>	<hr/>	<hr/>
Change in net assets	(3,743)	1,312	(2,431)
Net assets, beginning of year	(64,439)	6,693	(57,746)
	<hr/>	<hr/>	<hr/>
Net assets, end of year	<u>\$ (68,182)</u>	<u>\$ 8,005</u>	<u>\$ (60,177)</u>

Educational Child Care Center, Inc.
Statement of Functional Expenses
For the Year Ended September 30, 2019

	Program Total	Management and General	Fundraising	Total
Grants to individuals	\$ 23,967	\$ -	\$ -	\$ 23,967
Salaries and wages	1,590,547	329,748	19,397	1,939,692
Payroll taxes	125,581	26,035	1,531	153,148
Employee benefits	97,035	20,117	1,183	118,335
Accounting services	1,797	5,320	72	7,189
Office expenses	6,421	642	71	7,134
Advertising and promotion	1,397	815	116	2,329
Information technology	9,533	14,061	238	23,833
Occupancy	73,868	17,544	923	92,335
Conferences and training	19,219	1,012	-	20,230
Interest expense	8,740	971	-	9,711
Depreciation	23,842	5,662	298	29,802
Insurance	21,133	5,283	-	26,416
Bank fees	27,662	2,082	-	29,744
Materials and supplies	81,389	8,139	904	90,432
Bad debt	6,201	-	-	6,201
Food costs	91,376	1,884	942	94,202
Licensing and permits	724	-	-	724
Payroll Processing	12,337	2,558	150	15,045
Employee recruiting	-	2,826	-	2,826
Total	\$ 2,222,768	\$ 444,700	\$ 25,829	\$ 2,693,297

Educational Child Care Center, Inc.
Statement of Cash Flows
For the Year Ended September 30, 2019

Cash flows from operating activities:	
Changes in net assets	\$ (2,431)
Adjustments to reconcile change in net assets to net cash provided by operating activities:	
Depreciation	29,802
Changes in operating assets and liabilities:	
Receivables	10,785
Accounts payable	(20,102)
Prepaid expenses	179
Accrued wages	38,121
Other accrued liabilities	(59,177)
Deferred revenue	59,490
	56,667
Net cash provided by (used in) operating activities	56,667
Cash flows from investing activities:	
Cash paid for purchase of fixed assets	(3,024)
	(3,024)
Net cash provided by (used in) investing activities	(3,024)
Cash flows from financing activities:	
(Payments to) receipts from line of credit, net	(59,699)
Proceeds from new debt	75,000
Principal payments on long term debt	(30,769)
	(15,468)
Net cash provided by (used in) financing activities	(15,468)
Net increase (decrease) in cash accounts	38,175
Cash accounts - beginning of year	65,342
Cash accounts - end of year	\$ 103,517
Cash paid for:	
Interest	\$ 9,711

Educational Child Care Center, Inc.
Notes to Financial Statements
September 30, 2019

Note 1 – Organization and Accounting Policies

Organization

The Educational Child Care Center, Inc. (EC3, Organization) was organized in 1984 as a nonprofit corporation to improve the quality of early education for young children. EC3's vision is to be the premier child care center in the greater Lansing area. Their mission is to provide developmentally appropriate child care in a nurturing environment that promotes growth of the child while responding to the needs of the family.

The Organization consists of two distinct centers and operates under a volunteer Board of Directors and an Executive Director. The majority of the Organization's revenue is from tuition and fees for services.

The accounting policies of the Organization conform to U.S. generally accepted accounting principles (GAAP) as applicable to nonprofit entities. The Financial Accounting Standards Board (FASB) is the accepted standard-setting body for establishing nonprofit accounting and financial reporting principles.

Basis of Accounting and Financial Statement Presentation

The accompanying financial statements have been prepared on the accrual basis of accounting in accordance with generally accepted accounting principles. Basis of accounting relates to the timing of the measurements made regardless of the measurement focus applied.

Net assets and revenue are classified based on the existence or absence of donor-imposed restrictions. Net assets with donor restrictions are net assets that are subject to donor-imposed restrictions either for a specific use, duration, or both. When a time restriction expires or a use restriction is met, net assets with donor restrictions are reclassified to net assets without donor restrictions. Net assets with donor restrictions are available for subsequent years' activities (see Note 8).

During the year ending September 30, 2019, the Organization implemented Accounting Standards Update (ASU) 2016-14 as required. Prior to the adoption of ASU 2016-14, net assets and changes therein were required to be reported based on the duration of restrictions, if any, within three net asset classes: unrestricted net assets, temporarily restricted net assets, and permanently restricted net assets. ASU 2016-14 requires net assets and the changes therein to be reported based on the presence or absence of donor restrictions within two net asset classes: net assets with donor restrictions and net assets without donor restrictions. The ASU also removed, added, and modified certain disclosure requirements which are reflected in these financial statements. No adjustment was needed to the beginning balance of net assets.

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results could differ from those estimates.

Revenue and Receivables

Revenues of the Organization are primarily fees for tuition and related services. The Organization also receives contributions. All such contributions are considered to be without donor restriction unless specifically instructed otherwise by the donor. When a time restriction expires or a purpose restriction is satisfied, the amount is reclassified to net assets without donor restrictions and reported as "released from restriction" in the statement of activities.

Accounts receivable represents amounts that have been billed but not yet collected for various items such as tuition. Management reviews outstanding accounts receivable periodically through the year, with particular attention paid on amounts over 90 days. An estimate is recorded for doubtful accounts, which are written off when management determines the receivable will not be collected. The allowance for doubtful accounts at September 30, 2019 was \$6,201.

Educational Child Care Center, Inc.
Notes to Financial Statements
September 30, 2019

Note 1 – Organization and Accounting Policies (continued)

A reconciliation of accounts receivables is presented below.

Tuition	\$	32,813
Allowance		(6,201)
Accounts receivable, net	\$	26,612

Deferred Revenue

Deferred revenue represents payments received for tuition in advance of services provided in the subsequent fiscal year. Revenues and expenses related to these activities are reflected in the Statement of Activities in the period the services are provided.

Advertising Costs

Advertising and marketing costs are expensed as incurred.

Property and Equipment

Leasehold improvements and equipment are capitalized at cost basis when the purchase price exceeds \$2,500. This threshold was revised upward from prior years to bring the Organization’s policy in line with prevailing practices and to increase administrative efficiency. If assets are contributed, they are capitalized at fair value if it is greater than \$2,500. Depreciation is computed on the straight-line method over the estimated useful lives of the assets. The cost of normal maintenance that does not add to the functionality of assets or materially extend the asset lives is not capitalized.

Functional Expense Allocation

The financial statements report certain categories of expenses that are attributable to more than one program or supporting function. Therefore, these expenses require allocation on a reasonable basis that is consistently applied. All expenses used allocations except for those expenses related to grants, bad debts, licensing, and employee recruiting, which are direct expenses solely attributable to certain functional categories. Expenses are allocated on the basis of estimates of time and effort.

Liquidity

The Organization’s financial assets available within one year of the balance sheet date for general expenditure are as follows:

	2019	
Cash and savings accounts	\$	103,517
Grants and accounts receivable		26,612
Total		130,129
Restricted by donors with time or purpose restrictions		8,005
Financial assets available to meet cash needs for general expenditures within one year	\$	122,124

As part of the Organization’s liquidity management, it has a policy to structure its financial assets to be available as its general expenditures, liabilities, and other obligations come due.

Educational Child Care Center, Inc.
Notes to Financial Statements
September 30, 2019

Note 1 – Organization and Accounting Policies (continued)

Contributed Services

The Organization benefits from volunteers whose services do not meet the criteria for recognition according to generally accepted accounting principles. It is not practical to estimate the value of contributed services, which include services such as board member service and fundraising event volunteers.

Note 2 – Property and Equipment

The details of property and equipment are presented below:

	2019	Estimated Life
Land	\$ 33,750	-
Building and improvements	482,102	39 Years
Furniture and equipment	171,663	5 - 15 Years
Gross equipment cost	687,515	
Accumulated depreciation	(326,276)	
Property and equipment, net	\$ 361,239	

Note 3 – Line of Credit

The Organization has a revolving line of credit available with a bank allowing for borrowings up to a maximum of \$25,000, secured by all assets of the Organization, subject to covenants as specified in the agreement, and due on demand. Interest-only payments at prime plus 1.5% are required monthly until maturity in December 2019. Any outstanding principal balance is also due at maturity if not previously demanded by the bank.

Note 4 - Debt

A summary of long-term debt follows:

Note payable to bank due in monthly installments of \$1,519, interest at 4.5%, balloon payment due in February 2021, subject to certain covenants and assignments, and collateralized by real estate.	\$ 211,191
Note payable to bank due in monthly installments of \$825, interest at 5.75%, balloon payment due in December 2023, subject to certain covenants and assignments, and collateralized by real estate.	52,742
Total long-term debt	263,933
Less: current portion of long-term debt	(14,882)
Long-term debt, net of current portion	\$ 249,051

Educational Child Care Center, Inc.
Notes to Financial Statements
September 30, 2019

Note 4 – Debt (continued)

Future maturities of long-term debt are scheduled as follows:

2020	\$	14,882
2021		208,623
2022		6,707
2023		7,103
2024		<u>26,618</u>
Total	\$	<u>263,933</u>

Note 5 – Retirement Plan

The Organization maintains a 403(b) defined contribution retirement plan to which employees may contribute an annual maximum amount established by the Internal Revenue Service. No contributions from the Organization were made for the year ended September 30, 2019.

Note 6 – Subsequent Events

Subsequent events have been reviewed through January 8, 2019, which is the date the financial statements were available to be issued.

Note 7 – Income Taxes

The Organization is organized as a tax-exempt entity under section 501(c)(3) of the Internal Revenue Code. The Organization is generally exempt from federal and state income taxes on its related activities. The Organization files its income tax return (Form 990) in the U.S. Federal Jurisdiction.

Note 8 – Net Assets with Donor Restrictions

Net assets of \$8,005 are restricted for uses related to building upgrades and repairs as part of the ongoing Building Blocks Campaign efforts.