

Educational Child Care Center, Inc.

Financial Statements

September 30, 2018



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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, 2018, 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.

Going Concern

The accompanying financial statements have been prepared assuming that the Organization will continue as a going concern. As discussed in Note 8, the Organization has suffered a negative change in net assets, has a negative net asset balance, and has stated that substantial doubt exists about the Company's ability to continue in its current form as a going concern. Management's evaluation of the events and conditions and management's plans regarding these matters are also described in Note 8. The financial statements do not include any adjustments that might result from the outcome of this uncertainty. Our conclusion is not modified with respect to this matter.

Yeo & Yeo, P.C.

Lansing, Michigan
December 27, 2018

Educational Child Care Center, Inc.
Statement of Financial Position
September 30, 2018

Assets

Current assets

Cash		\$ 65,342
Accounts receivable		37,397
Prepaid expenses		179

Total current assets		<u>102,918</u>
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Fixed assets, net of accumulated depreciation		<u>388,016</u>
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Total assets		<u><u>\$ 490,934</u></u>
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Liabilities and Net Assets

Current liabilities

Accounts payable		\$ 47,644
Accrued wages		116,230
Accrued paid time off		27,193
Other accrued liabilities		2,291
DHS liability		13,121
Line of credit		72,499
LCC deposit		50,000
Current portion of mortgage payable		8,511

Total current liabilities		<u>337,489</u>
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Long-term liabilities

Noncurrent portion of mortgage payable		<u>211,191</u>
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Total liabilities		<u>548,680</u>
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Net assets

Unrestricted		(64,439)
Temporarily restricted		6,693

Total net assets		<u>(57,746)</u>
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Total liabilities and net assets		<u><u>\$ 490,934</u></u>
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Educational Child Care Center, Inc.
Statement of Activities
For the Year Ended September 30, 2018

	Unrestricted	Temporarily Restricted	Total
Revenue			
Donations	\$ 6,665	\$ 5,592	\$ 12,257
Tuition and fees	2,341,877	-	2,341,877
Fundraising	48,589	-	48,589
Other	97,204	-	97,204
	<u>2,494,335</u>	<u>5,592</u>	<u>2,499,927</u>
Expenses			
Program services	2,140,395	-	2,140,395
Supporting services			
Management and general	460,181	-	460,181
Fundraising	5,859	-	5,859
	<u>2,606,435</u>	<u>-</u>	<u>2,606,435</u>
Change in net assets	(112,100)	5,592	(106,508)
Net assets, beginning of year	<u>47,661</u>	<u>1,101</u>	<u>48,762</u>
Net assets, end of year	<u>\$ (64,439)</u>	<u>\$ 6,693</u>	<u>\$ (57,746)</u>

Educational Child Care Center, Inc.
Statement of Functional Expenses
For the Year Ended September 30, 2018

	Program Services	Supporting Services		Total
		Management and General	Fundraising	
Salaries and wages	\$ 1,504,224	\$ 330,195	\$ -	\$ 1,834,419
Payroll taxes and other employee benefits	264,739	58,113	-	322,852
Total salaries and related expenses	1,768,963	388,308	-	2,157,271
Utilities	34,537	7,581	-	42,118
Information technology	3,506	14,022	-	17,528
Occupancy	6,841	1,502	1,300	9,643
Office supplies	525	6,977	-	7,502
Property maintenance, repair and cleaning	37,479	8,227	-	45,706
Program equipment and supplies	64,887	-	-	64,887
Marketing and advertising	14,022	7,887	971	22,880
Staff development	14,328	-	-	14,328
Program food	88,424	2,735	-	91,159
Professional fees	-	4,323	-	4,323
Licensing and accreditation	3,300	-	-	3,300
Banking fees	30,127	6,613	-	36,740
Insurance	25,906	6,477	-	32,383
Interest expense - building mortgage	9,243	-	-	9,243
Penalty fee	13,121	-	-	13,121
Fundraising entertainment and prizes	-	-	3,588	3,588
Depreciation	25,186	5,529	-	30,715
Total expenses	\$ 2,140,395	\$ 460,181	\$ 5,859	\$ 2,606,435

Educational Child Care Center, Inc.
Statement of Cash Flows
For the Year Ended September 30, 2018

Cash flows from operating activities	
Change in net assets	\$ (106,508)
Items not requiring cash	
Depreciation	30,715
Changes in operating assets and liabilities	
Accounts receivable	(16,410)
Accounts payable	27,247
Accrued wages	1,132
Accrued paid time off	6,399
DHS liability	13,121
Other accrued liabilities	48
	(44,256)
Net cash (used) by operating activities	(44,256)
Cash flows from investing activities	
Purchase of fixed assets	(1,170)
Cash flows from financing activities	
Principal payments on line of credit	(728)
Principal payments on mortgage	(8,138)
LCC deposit	50,000
Payments on capital lease	(567)
	40,567
Net cash provided by financing activities	40,567
Net change in cash	(4,859)
Cash, beginning of year	70,201
Cash, end of year	\$ 65,342

Educational Child Care Center, Inc.
Notes to the Financial Statements
September 30, 2018

Note 1 - Organization and Summary of Significant Accounting Policies

Nature of Organization and Purpose

The Educational Child Care Center, Inc. (EC3) (the 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

Basis of accounting refers to when revenues and expenses are recognized in the accounts and reported in the financial statements. Basis of accounting relates to the timing of the measurements made regardless of the measurement focus applied.

The financial statements of the Organization are accounted for using the accrual basis of accounting in accordance with generally accepted accounting principles for nonprofit organizations.

Basis of Presentation

In accordance with accounting policies generally accepted in the United States of America (GAAP), the Organization is required to report information regarding its financial position and activities according to three (3) classes of net assets (unrestricted net assets, temporarily restricted net assets, and permanently restricted net assets) based upon the existence or absence of donor-imposed restrictions. Currently, the Organization has no net assets classified as permanently restricted.

GAAP also requires contributions received are recorded as unrestricted, temporarily restricted, or permanently restricted support, depending on the existence and/or nature of any donor restrictions. The Organization has not received any contributions with donor-imposed restrictions that would result in permanently restricted net assets.

Cash

Cash consists of three (3) checking accounts, two (2) savings accounts, and petty cash on hand.

Accounts Receivable

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.

It is the Organization's policy to charge off uncollectible accounts receivable when management determines the receivable will not be collected.

Fixed Assets

Fixed assets consist of building, building improvements, and equipment and are valued at historical cost. Depreciation is computed under the straight-line method over the estimated useful lives of the assets. The Organization capitalizes all items with a useful life greater than one year and in excess of \$350. The cost of normal maintenance that does not add to the value of assets or materially extend the asset lives is not capitalized.

Educational Child Care Center, Inc.
Notes to the Financial Statements
September 30, 2018

Functional Expenses

Certain costs of the Organization have been allocated to program service and supporting service activities. Salary and related expenses have been allocated based upon estimated time percentages for each employee. Most other costs are allocated to the activities based on estimated activity.

Income Tax Status

Educational Child Care Center, Inc. is a nonprofit corporation and has been granted exemption from income taxes under Section 501(c)(3) of the Internal Revenue Code. The Organization is not classified as a private foundation. The Organization files information returns in the U.S. Federal jurisdiction.

Concentration of Credit Risk

The Organization is required to disclose significant concentrations of credit risk regardless of the degree of such risk. Financial instruments which potentially subject the Organization to concentrations of credit risk consist principally of cash. The Organization places cash with FDIC insured financial institutions. At September 30, 2018, the Organization's deposits were fully insured.

Long-term Obligations

Long-term debt is recognized as a liability in the financial statements when incurred. The portion of those liabilities expected to be paid within the next year is a current liability with the remaining amounts shown as long-term debt.

Contributions

All contributions are considered to be available for unrestricted use unless specifically restricted by the donor. Amounts received that are designated for future periods or restricted by the donor for specific purposes are reported as temporarily restricted support that increases those net asset classes. When a temporary restriction expires, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets released from restrictions.

Tuition and Fees

The majority of the Organization's revenue is from tuition and fees charged for the services provided for child care by the Organization.

Comparative Data

Comparative data for the prior year has not been presented in the accompanying financial statements since its inclusion would make the statements unduly complex and difficult to read.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

Subsequent Events

In preparing these financial statements, the Organization has evaluated events and transactions for potential recognition or disclosure through December 27, 2018, the date the financial statements were available to be issued.

Educational Child Care Center, Inc.
Notes to the Financial Statements
September 30, 2018

Note 2 - Fixed Assets

Fixed asset activity for the year ended September 30, 2018 is as follows:

	Balance Oct. 1, 2017	Additions	Deletions	Balance Sept. 30, 2018
Fixed assets being depreciated				
Building	\$ 386,672	\$ -	\$ -	\$ 386,672
Building improvements	128,010	1,170	-	129,180
Equipment	168,638	-	-	168,638
	<hr/>	<hr/>	<hr/>	<hr/>
Subtotal	683,320	1,170	-	684,490
Less accumulated depreciation for:				
Building	(112,294)	(11,715)	-	(124,009)
Building improvements	(25,226)	(7,863)	-	(33,089)
Equipment	(128,239)	(11,137)	-	(139,376)
	<hr/>	<hr/>	<hr/>	<hr/>
Subtotal	(265,759)	(30,715)	-	(296,474)
Fixed assets, net	<u>\$ 417,561</u>	<u>\$ (29,545)</u>	<u>\$ -</u>	<u>\$ 388,016</u>

Note 3 - Line of Credit

The Organization has a line of credit agreement with Michigan State University Federal Credit Union (MSUFCU) to cover cash flow shortages. The line of credit limit is \$ 75,000. As of September 30, 2018, the balance payable was \$ 72,499. Interest on this line of credit is 6.5% annual percentage rate.

Note 4 - LCC Deposit

During the year, the Organization received a \$ 50,000 deposit from Lansing Community College (LCC) to help cover costs of child care for LCC student-parents. This deposit may be re-called by LCC at any time upon 30 day written notice.

Note 5 - Mortgage Payable

\$ 240,000 mortgage note payable with 4.5% interest dated February 25, 2016. Due in monthly installments of \$ 1,519 through February 25, 2021, with a balloon payment of the remaining balance due February 25, 2021.	\$ 219,702
Less current portion	<u>8,511</u>
	<u>\$ 211,191</u>

Interest expenses for 2018 amounted to \$ 9,243.

Educational Child Care Center, Inc.
Notes to the Financial Statements
September 30, 2018

Future minimum payments for the Organization's mortgage payable are as follows:

Year Ending Sept. 30,	Mortgage Payable	
	Principal	Interest
2019	\$ 8,511	\$ 9,713
2020	8,902	9,322
2021	202,289	3,764
	\$ 219,702	\$ 22,799

Note 6 - Temporarily Restricted Net Assets

The following is a summary of the temporarily restricted net assets at September 30, 2018:

Building Blocks Campaign	\$ 6,693
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Note 7 - Reliance on Funding Sources

The Organization receives a substantial amount of its support from tuition revenues and fees for services. A significant reduction in the level of support, if it were to occur, would have an effect on the Organization's programs and activities.

Note 8 - Going Concern

The Organization has a negative change in net assets of \$ 106,508 which created a negative net asset balance of \$ 57,746 in the current year. The Organization has been extending payments to vendors and has received a \$ 50,000 deposit from LCC to help cover costs which could be owed back in the future. Current liabilities are over three times the amount of current assets which indicates payments may be difficult to make. Management plans on working with vendors and creditors to payoff liabilities and increase fundraising activity during the year ended September 30, 2019.

Management and the Board of Directors have also adopted a strategic plan to transition the Organization into a nonprofit service organization that advocates for high-quality early learning and supports member centers, of which Educational Child Care Center and Early LCC are two. The transition covers the next three years and is expected to structure the organization to attract significant grant funding.