

ONE CITY EARLY LEARNING CENTERS, INC.

FINANCIAL STATEMENTS

June 30, 2018 and 2017

CONTENTS

Independent Auditor's Report	1
Statements of Financial Position.....	2
Statements of Activities.....	3
Statements of Functional Expenses	4
Statements of Cash Flows	5
Notes to Financial Statements	6



INDEPENDENT AUDITOR'S REPORT

To the Board of Directors
One City Schools, Inc.
Madison, Wisconsin

We have audited the accompanying financial statements of One City Schools, Inc., which comprise the statements of financial position as of June 30, 2018 and 2017, and the related statements of activities, functional expenses, and cash flows for the years 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. 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.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of One City Schools, Inc. as of June 30, 2018 and 2017, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Wegner CPAs LLP

Wegner CPAs, LLP
Madison, Wisconsin
October 12, 2018

Janesville Office:
101 E. Milwaukee Street
Suite 425
Janesville, WI 53545
P: (608) 756-4020

Baraboo Office:
123 Second Street
P.O. Box 150
Baraboo, WI 53913
P: (608) 356-3966
F: (608) 356-2966

Milwaukee Office:
W229 N1433 Westwood Drive
Suite 105
Waukesha, WI 53186
P: (262) 522-7555
F: (262) 522-7550

Madison Office:
2921 Landmark Place
Suite 300
Madison, WI 53713
P: (608) 274-4020
F: (608) 274-0775

www.wegnercpas.com
info@wegnercpas.com
(888) 204-7665

ONE CITY SCHOOLS, INC.
STATEMENTS OF FINANCIAL POSITION
June 30, 2018 and 2017

	2018	2017
ASSETS		
CURRENT ASSETS		
Cash	\$ 195,494	\$ 37,823
Promises to give	129,383	106,306
Accounts receivable - net	12,817	597
Prepaid expenses	7,206	9,204
Total current assets	344,900	153,930
NONCURRENT ASSETS		
Promises to give	52,500	86,500
Property and equipment - net	1,360,937	1,380,375
Total noncurrent assets	1,413,437	1,466,875
Total assets	\$ 1,758,337	\$ 1,620,805
LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES		
Accounts payable	\$ 56,850	\$ 35,125
Construction payable	-	41,352
Accrued payroll	15,241	11,505
Capital lease obligation	698,069	675,966
Total current liabilities	770,160	763,948
NET ASSETS		
Unrestricted	535,106	615,345
Temporarily restricted	453,071	241,512
Total net assets	988,177	856,857
Total liabilities and net assets	\$ 1,758,337	\$ 1,620,805

See accompanying notes.

ONE CITY SCHOOLS, INC.
STATEMENTS OF ACTIVITIES
Years ended June 30, 2018 and 2017

	2018	2017
UNRESTRICTED NET ASSETS		
SUPPORT AND REVENUE		
Contributions	\$ 468,810	\$ 298,578
Tuition and fees	402,631	293,808
In-kind contributions	1,100	120
Miscellaneous	3,111	141
Total unrestricted support and revenue	875,652	592,647
EXPENSES AND LOSSES		
Program services	721,306	419,472
Management and general	295,554	204,162
Fundraising	128,346	127,038
Total expenses	1,145,206	750,672
Write-off uncollectible and doubtful accounts	52,420	-
Total expenses and losses	1,197,626	750,672
Net assets released from restrictions	241,735	32,605
Change in unrestricted net assets	(80,239)	(125,420)
TEMPORARILY RESTRICTED NET ASSETS		
Contributions	453,294	242,755
Net assets released from restrictions	(241,735)	(32,605)
Change in temporarily restricted net assets	211,559	210,150
Change in net assets	131,320	84,730
Net assets - beginning of year	856,857	772,127
Net assets - end of year	<u>\$ 988,177</u>	<u>\$ 856,857</u>

See accompanying notes.

ONE CITY SCHOOLS, INC.
STATEMENTS OF FUNCTIONAL EXPENSES
Years ended June 30, 2018 and 2017

	Program Services	Management and General	Fundraising	Total
Contract services	\$ 13,851	\$ 140,793	\$ 2,974	\$ 157,618
Facilities and equipment	46,942	14,015	13,582	74,539
Office	20,423	6,113	5,924	32,460
General	36,453	22,032	11,911	70,396
Personnel	474,230	94,197	76,118	644,545
Staff and board	36,959	11,062	10,721	58,742
Kitchen and food service	14,958	-	-	14,958
Direct student costs	38,692	-	-	38,692
Special events	6,758	-	-	6,758
Depreciation	32,040	7,342	7,116	46,498
Total expenses - 2018	\$ 721,306	\$ 295,554	\$ 128,346	\$ 1,145,206
Contract services	\$ 7,818	\$ 71,607	\$ 8,163	\$ 87,588
Facilities and equipment	53,192	13,391	12,978	79,561
Office	16,009	4,792	4,644	25,445
General	6,665	7,435	18,026	32,126
Personnel	264,647	85,823	74,032	424,502
Staff and board	9,918	14,595	2,877	27,390
Kitchen and food service	9,523	-	-	9,523
Direct student costs	24,919	-	-	24,919
Special events	2,803	-	-	2,803
Depreciation	23,978	6,519	6,318	36,815
Total expenses - 2017	\$ 419,472	\$ 204,162	\$ 127,038	\$ 750,672

See accompanying notes.

ONE CITY SCHOOLS, INC.
STATEMENTS OF CASH FLOWS
Years ended June 30, 2018 and 2017

	2018	2017
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	\$ 131,320	\$ 84,730
Adjustments to reconcile change in net assets to net cash flows from operating activities		
Allowance for doubtful accounts	27,914	26,000
Depreciation	46,498	36,815
(Increase) decrease in assets		
Promises to give	10,923	(137,526)
Accounts receivable	(40,134)	(20,265)
Prepaid expenses	1,998	(2,886)
Increase (decrease) in liabilities		
Accounts payable	21,725	(8,817)
Accrued payroll	3,736	(2,322)
Net cash flows from operating activities	203,980	(24,271)
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchases of furniture and equipment	(27,060)	(22,985)
Payments made to prepare property and equipment for intended use	-	(18,802)
Net cash flows from investing activities	(27,060)	(41,787)
CASH FLOWS FROM FINANCING ACTIVITIES		
Payments on construction payable	(41,352)	(59,938)
Payments on capital lease obligation	-	(75,000)
Proceeds from contributions restricted for investment in property and equipment	-	86,979
Interest expense added to capital lease obligation	22,103	-
Net cash flows from financing activities	(19,249)	(47,959)
Net change in cash	157,671	(114,017)
Cash - beginning of year	37,823	151,840
Cash - end of year	<u>\$ 195,494</u>	<u>\$ 37,823</u>
SUPPLEMENTAL DISCLOSURES		
Cash paid for interest net of the amount capitalized	\$ 16,352	\$ 30,375
Noncash investing and financing transactions		
Property and equipment	-	311,249
Capital lease obligation	-	(311,249)
Property and equipment additions included in construction payable	-	20,465
Property and equipment additions included in capital lease obligation	-	21,226
Furniture and equipment included in accounts payable	-	10,000
Construction payable included in capital lease obligation	365,000	365,000
Accrued interest included in capital lease obligation	22,103	-

See accompanying notes.

ONE CITY SCHOOLS, INC.
NOTES TO FINANCIAL STATEMENTS
June 30, 2018 and 2017

One City Schools, Inc. (One City) (previously One City Early Learning Centers, Inc.) prepares young children from birth to age 5 in the Madison, Wisconsin area for success in school and life. One City's support and revenue is primarily from contributions and tuition.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation

One City is required to report information regarding its financial position and activities according to three classes of net assets:

Unrestricted net assets—Net assets that are not restricted by donors. Designations are voluntary board-approved segregations of unrestricted net assets for specific purposes, projects, or investments.

Temporarily restricted net assets—Net assets whose use has been limited by donor-imposed time restrictions or purpose restrictions.

Permanently restricted net assets—Net assets that have been restricted by donors to be maintained by One City in perpetuity.

Receivables

Receivables, including tuition and other receivables, are stated at face value, net of the allowance for doubtful accounts. One City does not charge finance charges on past due receivables. The allowance for doubtful accounts is maintained at a level that is management's best estimate of probable uncollectible tuition and bad debts incurred as of the statement of financial position date. Management's determination of the adequacy of the allowances is based on an evaluation of the receivables, past collection experience, current economic conditions, volume, growth and composition of the receivables, and other relevant factors. The allowance is increased by provisions for uncollectible tuition and receivables charged against income. The allowance for doubtful accounts at June 30, 2018 and 2017 is \$27,914 and \$26,000.

Promises to Give

Unconditional promises to give are recognized as support in the period the promises are received. Conditional promises to give are recognized only when the conditions on which they depend are substantially met and the promises become unconditional. Promises to give receivable in less than one year are recorded at their net realizable value. One City considers all promises to give to be fully collectible. Accordingly, no allowance for doubtful accounts is required. If promises to give become uncollectible, they will be charged to operations when that determination is made.

Property and Equipment

Property and equipment are stated at cost less accumulated depreciation. Furniture and equipment with a value of over \$5,000 is capitalized and depreciated using the straight-line method over an estimated useful life relative to the piece of property or equipment. Contributed property and equipment is recorded at fair value at the date of donation. If donors stipulate how long the assets must be used, the contributions are recorded as restricted support. In the absence of such stipulations, contributions of equipment are recorded as unrestricted support.

ONE CITY SCHOOLS, INC.
NOTES TO FINANCIAL STATEMENTS
June 30, 2018 and 2017

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Contributions

Contributions received are recorded as increases in unrestricted, temporarily restricted, or permanently restricted net assets, depending on the existence and/or nature of any donor restrictions. When a restriction expires, temporarily restricted net assets are reclassified to unrestricted net assets and reported as net assets released from restrictions.

Donated Materials, Facilities and Services

Donated materials and facilities are recorded at their estimated fair values in the period received. One City reports the donations as unrestricted support, unless explicit donor stipulations specify how the donated assets must be used and gifts of cash or other assets that must be used to acquire long-lived assets are reported as restricted support. Absent explicit donor stipulations about how long those long-lived assets must be maintained, One City reports expirations of donor restrictions when the donated or acquired long-lived assets are placed in service.

Donated services are recognized as contributions if the services (a) create or enhance nonfinancial assets or (b) require specialized skills, are performed by people with those skills, and would otherwise be purchased by One City.

Expense Allocation

The costs of providing various program services and other activities have been summarized on a functional basis in the statements of activities and in the statements of functional expenses. Accordingly, certain costs have been allocated among the program services and supporting activities benefited.

Income Tax Status

One City is exempt from federal income tax under Section 501(c)(3) of the Internal Revenue Code.

Estimates

Management uses estimates and assumptions in preparing financial statements. Those estimates and assumptions affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities, and the reported revenue and expenses. Actual results could differ from those estimates.

Reclassifications

Certain reclassifications have been made to the prior year amounts to conform with the current year presentation.

Date of Management's Review

Management has evaluated subsequent events through October 12, 2018, the date which the financial statements were available to be issued.

ONE CITY SCHOOLS, INC.
NOTES TO FINANCIAL STATEMENTS
June 30, 2018 and 2017

NOTE 2 – PROMISES TO GIVE

Unconditional promises to give at June 30, 2018 and 2017 consists of the following:

	<u>2018</u>	<u>2017</u>
Receivable in less than one year	\$ 129,383	\$ 106,306
Receivable in one to five years	<u>52,500</u>	<u>86,500</u>
Unconditional promises to give	<u>\$ 181,883</u>	<u>\$ 192,806</u>

NOTE 3 – PROPERTY AND EQUIPMENT

Property and equipment at June 30, 2018 and 2017 consists of the following:

	<u>2018</u>	<u>2017</u>
Facility construction	\$ 1,164,776	\$ 1,154,776
Land and building	224,815	217,865
Furniture and equipment	54,855	44,745
Less accumulated depreciation	<u>(83,509)</u>	<u>(37,011)</u>
Property and equipment - net	<u>\$ 1,360,937</u>	<u>\$ 1,380,375</u>

Interest capitalized during the years ended June 30, 2018 and 2017 was \$20,452 and \$2,018.

NOTE 4 – NET ASSETS

Temporarily restricted net assets at June 30, 2018 and 2017 are available for the following purposes:

	<u>2018</u>	<u>2017</u>
Scholarships	\$ 31,952	\$ 95,332
Sun shade	-	10,000
Charter School start-up	250,000	-
Time	<u>171,119</u>	<u>136,180</u>
Temporarily restricted net assets	<u>\$ 453,071</u>	<u>\$ 241,512</u>

ONE CITY SCHOOLS, INC.
NOTES TO FINANCIAL STATEMENTS
June 30, 2018 and 2017

NOTE 5 – FACILITY AGREEMENTS

One City entered into a lease-to-purchase agreement with FCI Community Impact, LLC on February 27, 2015, in which One City would pay no calculated rent from the inception of the agreement through December 31, 2015. The lease-to-purchase agreement was subsequently amended on June 14, 2016 to extend the arrangement for One City to pay no calculated rent through the purchase date and for FCI Community Impact, LLC to treat any expenditures incurred on behalf of One City as principal advances, subject to interest at 6%.

At June 30, 2018 and 2017, One City has recorded a building purchase obligation of \$212,372 and a facility construction obligation of \$195,697 and \$173,594, all of which has been capitalized.

On September 29, 2016, One City entered into a \$365,000 leasehold mortgage with Forward Community Investments, Inc. with a fixed interest rate of 5.5% to repay FCI Community Impact, LLC. The leasehold mortgage requires monthly payments of interest starting October 31, 2016, plus a final payment of the unpaid principal and interest on December 31, 2018. In addition, the leasehold mortgage requires principal balloon payments, to be made based on One City's expected collection of promises to give as follows: \$62,500 on October 31, 2016, \$12,500 on December 15, 2016, and \$50,000 on January 31, 2017. The leasehold mortgage balance at June 30, 2018 and 2017 was \$290,000.

One City has made the October 31, 2016 and December 15, 2016 payments and has made arrangements with Forward Community Impact, Inc. to include the remaining payments with the amount due at December 31, 2018.

NOTE 6 – DONATED MATERIALS, FACILITIES, AND SERVICES

At June 30, 2018, One City received donated accounting services in the amount of \$500 classified as management and general and donated supplies in the amount of \$600 classified as program expenses.

At June 30, 2017, One City received donated materials in the amount of \$18,415, which were capitalized. One City received donated moving services in the amount of \$9,416 classified as management and general.

NOTE 7 – OPERATING LEASE

During 2017, One City had an operating lease for temporary space requiring a security deposit of \$2,000 and monthly payments of \$4,000. One City used this space from August 15, 2015 through May 30, 2016. Rent expense for the year ended June 30, 2017 was \$32,000.

NOTE 8 – RELATED PARTY

One City receives various contributions and promises to give from board members. At June 30, 2018 and 2017, One City received \$60,493 and \$10,860 in contributions from board members. At June 30, 2018, One City received \$35,899 and \$5,240 in promises to give from board members.

ONE CITY SCHOOLS, INC.
NOTES TO FINANCIAL STATEMENTS
June 30, 2018 and 2017

NOTE 9 – SUBSEQUENT EVENTS

During the year ended June 30, 2018, One City shifted its organization from a 501(c)(3) non-profit organization to a charter school under section 118.40(2x) of Wisconsin State Statutes. The charter school is effective beginning with the 2018-2019 school year.

In August 2018, One City obtained a \$100,000 line of credit through Summit Credit Union which matures on September 15, 2019. The line of credit has an annual interest rate of 6.0%. The full balance of the line of credit was withdrawn.

In September 2018, One City obtained a \$210,000 line of credit through Summit Credit Union which matures on September 15, 2019. The line of credit has an annual interest rate of 6.25%. \$173,000 has been withdrawn from the line of credit.