

**ONE CITY EARLY LEARNING CENTERS, INC.**

**FINANCIAL STATEMENTS**

June 30, 2017 and 2016

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## INDEPENDENT AUDITOR'S REPORT

To the Board of Directors  
One City Early Learning Centers, Inc.  
Madison, Wisconsin

We have audited the accompanying financial statements of One City Early Learning Centers, Inc., which comprise the statements of financial position as of June 30, 2017 and 2016, 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 Early Learning Centers, Inc. as of June 30, 2017 and 2016, 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  
February 12, 2018

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**ONE CITY EARLY LEARNING CENTERS, INC.**  
**STATEMENTS OF FINANCIAL POSITION**  
June 30, 2017 and 2016

	2017	2016
<b>ASSETS</b>		
<b>CURRENT ASSETS</b>		
Cash	\$ 37,823	\$ 151,840
Promises to give	192,806	142,259
Accounts receivable - net	597	6,332
Prepaid expenses	9,204	6,318
Total current assets	240,430	306,749
Property and equipment - net	1,380,375	1,323,712
<b>Total assets</b>	<b>\$ 1,620,805</b>	<b>\$ 1,630,461</b>
<b>LIABILITIES AND NET ASSETS</b>		
<b>CURRENT LIABILITIES</b>		
Accounts payable	\$ 35,125	\$ 33,942
Construction payable	41,352	445,825
Accrued payroll	11,505	13,827
Total current liabilities	87,982	493,594
<b>LONG TERM LIABILITIES</b>		
Capital lease obligation	675,966	364,740
Total liabilities	763,948	858,334
<b>NET ASSETS</b>		
Unrestricted	615,345	740,765
Temporarily restricted	241,512	31,362
Total net assets	856,857	772,127
<b>Total liabilities and net assets</b>	<b>\$ 1,620,805</b>	<b>\$ 1,630,461</b>

See accompanying notes.

**ONE CITY EARLY LEARNING CENTERS, INC.**  
**STATEMENTS OF ACTIVITIES**  
Years ended June 30, 2017 and 2016

	2017	2016
<b>UNRESTRICTED NET ASSETS</b>		
<b>SUPPORT AND REVENUE</b>		
Contributions	\$ 298,578	\$ 314,827
Tuition and fees	323,388	99,541
In-kind contributions	120	29,766
Miscellaneous	141	217
Total unrestricted support and revenue	622,227	444,351
<b>EXPENSES</b>		
Program services	419,472	331,876
Management and general	233,742	169,184
Fundraising	127,038	90,815
Total expenses	780,252	591,875
Net assets released from restrictions	32,605	612,348
<b>Change in unrestricted net assets</b>	(125,420)	464,824
<b>TEMPORARILY RESTRICTED NET ASSETS</b>		
Contributions	242,755	738,710
Net assets released from restrictions	(32,605)	(612,348)
<b>Change in temporarily restricted net assets</b>	210,150	126,362
<b>Change in net assets</b>	84,730	591,186
Net assets - beginning of year	772,127	180,941
<b>Net assets - end of year</b>	<b>\$ 856,857</b>	<b>\$ 772,127</b>

See accompanying notes.

**ONE CITY EARLY LEARNING CENTERS, INC.**  
**STATEMENTS OF FUNCTIONAL EXPENSES**  
Years ended June 30, 2017 and 2016

	Program Services	Management and General	Fundraising	Total
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	37,015	18,026	61,706
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
<b>Total expenses - 2017</b>	<b>\$ 419,472</b>	<b>\$ 233,742</b>	<b>\$ 127,038</b>	<b>\$ 780,252</b>
Contract services	\$ 8,734	\$ 41,150	\$ 2,534	\$ 52,418
Facilities and equipment	13,115	1,870	1,812	16,797
Office	26,290	29,932	7,626	63,848
General	12,761	13,093	7,177	33,031
Personnel	215,319	64,448	62,461	342,228
Staff and board	4,818	10,636	1,398	16,852
Direct student costs	23,926	-	-	23,926
Occupancy	26,913	8,055	7,807	42,775
<b>Total expenses - 2016</b>	<b>\$ 331,876</b>	<b>\$ 169,184</b>	<b>\$ 90,815</b>	<b>\$ 591,875</b>

See accompanying notes.

**ONE CITY EARLY LEARNING CENTERS, INC.**  
**STATEMENTS OF CASH FLOWS**  
Years ended June 30, 2017 and 2016

	2017	2016
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Change in net assets	\$ 84,730	\$ 591,186
Adjustments to reconcile change in net assets to net cash flows from operating activities		
Allowance for doubtful accounts	26,000	-
Depreciation	36,815	-
Contributions restricted for long-term purposes	-	(675,750)
Donated materials for facility construction	-	(18,415)
(Increase) decrease in assets		
Promises to give	(137,526)	(5,880)
Accounts receivable	(20,265)	(6,332)
Prepaid expenses	(2,886)	(5,693)
Increase (decrease) in liabilities		
Accounts payable	(8,817)	17,022
Accrued expenses	(2,322)	10,226
	(24,271)	(93,636)
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Purchases of furniture and equipment	(22,985)	(11,760)
Payments made to prepare property and equipment for intended use	(18,802)	(420,998)
	(41,787)	(432,758)
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Payments on construction payable	(59,938)	-
Payments on capital lease obligation	(75,000)	-
Proceeds from contributions restricted for investment in property and equipment	86,979	569,371
	(47,959)	569,371
<b>Net change in cash</b>	(114,017)	42,977
Cash - beginning of year	151,840	108,863
<b>Cash - end of year</b>	\$ 37,823	\$ 151,840
<b>SUPPLEMENTAL DISCLOSURES</b>		
Cash paid for interest net of the amount capitalized	\$ 30,375	\$ 514
Noncash investing and financing transactions		
Property and equipment	311,249	80,945
Capital lease obligation	(311,249)	(80,945)
Property and equipment additions included in construction payable	20,465	445,825
Property and equipment additions included in capital lease obligation	21,226	-
Donated materials for facility construction	-	18,415
Furniture and equipment included in accounts payable	10,000	-
Construction payable included in capital lease obligation	365,000	-

See accompanying notes.

**ONE CITY EARLY LEARNING CENTERS, INC.**  
NOTES TO FINANCIAL STATEMENTS  
June 30, 2017 and 2016

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One City Early Learning Centers, Inc. (OCEL) prepares young children from birth to age 5 in the Madison, Wisconsin area for success in school and life. OCEL's support and revenue is primarily from contributions. The significant accounting policies followed are described below to enhance the usefulness of the financial statements to the reader.

**NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

**Basis of Presentation**

OCEL 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 OCEL in perpetuity.

**Receivables**

Receivables, including tuition and other receivables, are stated at face value, net of the allowance for doubtful accounts. OCEL 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, 2017 is \$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. OCEL 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 EARLY LEARNING CENTERS, INC.**  
NOTES TO FINANCIAL STATEMENTS  
June 30, 2017 and 2016

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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. OCEL 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, OCEL 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 OCEL.

**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.

**Reclassifications**

Certain accounts in the prior-year financial statements have been reclassified for comparative purposes to conform with the presentation in the current-year financial statements.

**Income Tax Status**

OCEL 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.

**Date of Management's Review**

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

**ONE CITY EARLY LEARNING CENTERS, INC.**  
NOTES TO FINANCIAL STATEMENTS  
June 30, 2017 and 2016

**NOTE 2 – PROMISES TO GIVE**

Unconditional promises to give at June 30, 2017 and 2016 consisted of the following:

2017	Facility	Other	Total
Receivable in less than one year	\$ -	\$ 106,306	\$ 106,306
Receivable in one to five years	-	86,500	86,500
Unconditional promises to give	<u>\$ -</u>	<u>\$ 192,806</u>	<u>\$ 192,806</u>
2016			
Receivable in less than one year	\$ 61,979	\$ 50,000	\$ 111,979
Receivable in one to five years	25,000	5,280	30,280
Unconditional promises to give	<u>\$ 86,979</u>	<u>\$ 55,280</u>	<u>\$ 142,259</u>

**NOTE 3 – PROPERTY AND EQUIPMENT**

Property and equipment at June 30, 2017 and 2016 consists of the following:

	2017	2016
Facility construction	\$ 1,154,776	\$ 1,099,776
Land and building	217,865	212,372
Furniture and equipment	44,745	11,760
Less accumulated depreciation	<u>(37,011)</u>	<u>(196)</u>
Property and equipment - net	<u>\$ 1,380,375</u>	<u>\$ 1,323,712</u>

Facility construction and land and building at June 30, 2016 is construction-in-progress as it was placed in service on August 9, 2016. Interest capitalized during the years ended June 30, 2017 and 2016 was \$2,018 and \$11,259.

**NOTE 4 – NET ASSETS**

Temporarily restricted net assets at June 30, 2017 and 2016 are available for the following purposes:

	2017	2016
Scholarships	\$ 95,332	\$ 26,082
Sun shade	10,000	-
Time	<u>136,180</u>	<u>5,280</u>
Temporarily restricted net assets	<u>\$ 241,512</u>	<u>\$ 31,362</u>

**ONE CITY EARLY LEARNING CENTERS, INC.**  
NOTES TO FINANCIAL STATEMENTS  
June 30, 2017 and 2016

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**NOTE 5 – FACILITY AGREEMENTS**

OCEL entered into a lease-to-purchase agreement with FCI Community Impact, LLC on February 27, 2015, in which OCEL 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 OCEL to pay no calculated rent through the purchase date and for FCI Community Impact, LLC to treat any expenditures incurred on behalf of OCEL as principal advances, subject to interest at 6%.

At June 30, 2017 and 2016, OCEL has recorded a building purchase obligation of \$212,372 and a facility construction obligation of \$173,594 and \$152,368, all of which has been capitalized.

On September 29, 2016, OCEL 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 OCEL'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, 2017 was \$290,000.

OCEL 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, 2016, OCEL received donated materials in the amount of \$18,415, which were capitalized. OCEL received donated moving services in the amount of \$9,416 classified as management and general.

**NOTE 7 – OPERATING LEASE**

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