

EDUCARE OF WEST DUPAGE

**FINANCIAL STATEMENTS AND
SUPPLEMENTARY INFORMATION**

For the Year Ended June 30, 2017

Educare of West DuPage

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Desmond & Ahern, Ltd.

CERTIFIED PUBLIC ACCOUNTANTS & CONSULTANTS

Independent Auditor's Report

To the Board of Directors
Educare of West DuPage
West DuPage, IL

We have audited the accompanying financial statements of Educare of West DuPage (a non-profit organization), which comprise the statement of financial position as of June 30, 2017, 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 audit. We conducted our audit 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 of 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 Educare of West DuPage as of June 30, 2017, 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 Educare of West DuPage's 2016 financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated November 25, 2016. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2016, is consistent, in all material respects, with the audited financial statements from which it has been derived.

Desmond & Ahern, Ltd

December 1, 2017
Chicago, IL

EDUCARE OF WEST DUPAGE
STATEMENT OF FINANCIAL POSITION
As of June 30, 2017 (with comparative totals for 2016)

	<u>2017</u>	<u>2016</u>
<u>Assets</u>		
Cash and cash equivalents	\$ 1,233,768	\$ 976,025
Government receivable, net of allowance	187,087	262,683
Contributions receivable due within one year	200,000	237,689
Program service fees, net of allowance	12,672	10,909
Prepaid expenses	<u>10,175</u>	<u>18,713</u>
Total current assets	<u>1,643,702</u>	<u>1,506,019</u>
Property and Equipment		
Building and improvements	7,287,643	7,287,643
Furniture and equipment	231,597	231,597
Website design	<u>8,138</u>	<u>8,138</u>
	<u>7,527,378</u>	<u>7,527,378</u>
Less accumulated depreciation and amortization	<u>(1,590,030)</u>	<u>(1,272,408)</u>
Net property and equipment	<u>5,937,348</u>	<u>6,254,970</u>
Other Assets		
Long-term contributions receivable - net of discount	<u>768,808</u>	<u>953,458</u>
Total Assets	<u><u>\$ 8,349,858</u></u>	<u><u>\$ 8,714,447</u></u>
<u>Liabilities and Net Assets</u>		
Current Liabilities		
Accounts payable	\$ 57,582	\$ 52,719
Accrued payroll and related benefits	<u>213,747</u>	<u>165,468</u>
Total current liabilities	<u>271,329</u>	<u>218,187</u>
Net Assets		
Unrestricted net assets		
Invested in property and equipment	6,366,145	6,366,145
General	<u>702,466</u>	<u>830,461</u>
Total unrestricted net assets	<u>7,068,611</u>	<u>7,196,606</u>
Temporarily restricted	<u>1,009,918</u>	<u>1,299,654</u>
Total net assets	<u>8,078,529</u>	<u>8,496,260</u>
Total Liabilities and Net Assets	<u><u>\$ 8,349,858</u></u>	<u><u>\$ 8,714,447</u></u>

See independent auditor's report and notes to financial statements.

**EDUCARE OF WEST DUPAGE
STATEMENT OF ACTIVITIES
For the Year Ended June 30, 2017 (with comparative totals for 2016)**

	Unrestricted	Temporarily Restricted	Total 2017	Total 2016
<u>Public Support and Revenue</u>				
Government grants	\$ 2,923,949	\$ -	\$ 2,923,949	\$ 2,472,502
Contributions - other	9,913	146,868	156,781	131,896
Program service fees	97,181	-	97,181	90,394
Tuition	59,522	-	59,522	-
Donated services	52,507	-	52,507	49,263
Donated facilities	101,903	-	101,903	76,369
Special Events				
Contributions and special events revenue	79,569	-	79,569	53,640
Less costs of direct benefits to donors	(13,636)	-	(13,636)	(12,296)
Net revenues from special events	65,933	-	65,933	41,344
Interest income	3,121	-	3,121	1,217
Net assets released from restrictions - satisfaction of time restrictions	200,000	(200,000)	-	-
satisfaction of program restrictions	236,604	(236,604)	-	-
Total Public Support and Revenue	3,750,633	(289,736)	3,460,897	2,862,985
<u>Expenses</u>				
Program services	3,211,846	-	3,211,846	2,849,343
Management and general	475,751	-	475,751	456,204
Fundraising	191,031	-	191,031	146,174
Total Expenses	3,878,628	-	3,878,628	3,451,721
Change in Net Assets	(127,995)	(289,736)	(417,731)	(588,736)
Net assets, beginning of year	7,196,606	1,299,654	8,496,260	9,084,996
Net assets, end of year	<u>\$ 7,068,611</u>	<u>\$ 1,009,918</u>	<u>\$ 8,078,529</u>	<u>\$ 8,496,260</u>

See independent auditor's report and notes to financial statements.

EDUCARE OF WEST DUPAGE
STATEMENT OF FUNCTIONAL EXPENSES
For the Year Ended June 30, 2017 (with comparative totals for 2016)

	Program Services	Management and General	Fundraising	Total 2017	Total 2016
<u>Functional Expenses</u>					
Salaries and wages	\$ 1,932,065	\$ 253,945	\$ 49,697	\$ 2,235,707	\$ 1,983,128
Fringe benefits and related taxes	387,772	53,406	8,100	449,278	423,202
	<u>2,319,837</u>	<u>307,351</u>	<u>57,797</u>	<u>2,684,985</u>	<u>2,406,330</u>
Professional fees	140,053	105,610	121,625	367,288	367,324
Staff development and training	85,662	1,246	982	87,890	34,306
Donated services	52,507	-	-	52,507	48,233
Parent services	3,418	-	-	3,418	3,693
Donated facilities	101,903	-	-	101,903	77,399
Telephone and internet	10,798	1,437	175	12,410	12,108
Insurance	11,631	5,974	-	17,605	18,332
Repairs and maintenance	8,541	340	-	8,881	4,202
Equipment	31,336	4,937	30	36,303	19,925
Meal related costs	86,046	-	-	86,046	86,954
Classroom and educational supplies	53,041	6	-	53,047	27,484
Supplies- other	25,939	5,770	524	32,233	19,343
Printing and postage	108	341	-	449	542
Bank fees	-	1,740	4	1,744	364
Depreciation and amortization	273,981	38,515	5,126	317,622	317,621
Miscellaneous	7,045	2,484	4,768	14,297	7,558
Total Expenses	<u><u>\$ 3,211,846</u></u>	<u><u>\$ 475,751</u></u>	<u><u>\$ 191,031</u></u>	<u><u>\$ 3,878,628</u></u>	<u><u>\$ 3,451,718</u></u>

See independent auditor's report and notes to financial statements.

**EDUCARE OF WEST DUPAGE
STATEMENT OF CASH FLOWS
For the Year Ended June 30, 2017 (with comparative totals for 2016)**

	<u>2017</u>	<u>2016</u>
<u>Reconciliation of Change in Net Assets to Net Cash Provided by Operating Activities</u>		
Change in net assets	\$ (417,731)	\$ (588,736)
Adjustments to reconcile change in net assets to net cash provided by operating activities		
Depreciation and amortization	317,622	317,621
(Increase) decrease in		
Government receivable	75,596	18,793
Contributions receivable	222,339	213,384
Program service fees receivable	(1,763)	(1,135)
Prepays	8,538	(2,495)
Increase (decrease) in		
Accounts payable	4,863	10,109
Accrued payroll and vacation	48,279	43,558
Net cash provided by operating activities	<u>257,743</u>	<u>11,099</u>
Net increase in cash and cash equivalents	257,743	11,099
Cash and cash equivalents, beginning of year	<u>976,025</u>	<u>964,926</u>
Cash and cash equivalents, end of year	<u><u>\$ 1,233,768</u></u>	<u><u>\$ 976,025</u></u>

See independent auditor's report and notes to financial statements.

EDUCARE OF WEST DUPAGE
NOTES TO FINANCIAL STATEMENTS
June 30, 2017

Note 1 – Nature of Operations and Summary of Significant Accounting Policies

Organization

Educare of West DuPage (Educare) is an Illinois not-for-profit corporation organized to increase access to quality, comprehensive child care and early learning experiences for children from birth through the age of five years and their families and increase school readiness in children from low income backgrounds.

Tax Exempt Status

Educare was granted an exemption from federal income taxes by the Internal Revenue Service pursuant to the provisions of Internal Revenue Code Section 501(c)(3). Educare qualifies for the charitable contribution deduction under Section 170(b)(1)(A)(vi) and has been classified as an organization that is not a private foundation under Section 509(a)(1). The tax-exempt purpose of Educare and the nature in which it operates is described above. Educare continues to operate in compliance with its tax-exempt purpose. Educare's annual information and income tax returns filed with the federal and state governments are subject to examination generally for three years after they are filed.

Educare has adopted the requirements for accounting for uncertain tax positions and management has determined that Educare was not required to record a liability related to uncertain tax positions as of June 30, 2017.

Basis of Accounting

The accounts and financial statements are maintained on the accrual basis of accounting and accordingly, reflect all significant accounts receivable, payable, and other liabilities.

Basis of Presentation

Educare reports information regarding its financial position and activities according to three classes of net assets: unrestricted, temporarily restricted, and permanently restricted net assets, as required by Generally Accepted Accounting Principles (GAAP).

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 the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of the revenues, expenses, gains, losses and other changes in net assets during the reporting period. Actual results could differ from those estimates.

Cash and Cash Equivalents

Cash and cash equivalents consist of bank deposits in federally insured accounts. The accounts may, at times, exceed the federally insured limit of \$250,000. For purposes of the Statement of Cash

EDUCARE OF WEST DUPAGE
NOTES TO FINANCIAL STATEMENTS
June 30, 2017

Note 1 – Nature of Operations and Summary of Significant Accounting Policies (cont.)

Flows, the Organization considers all highly liquid debt instruments, if any, purchased with an original maturity of three months or less to be cash equivalents. No taxes or interest were paid during the year ended June 30, 2017.

Property and Equipment

Expenditures for property and equipment and items which substantially increase the useful lives of existing assets are capitalized at cost. The Organization provides for depreciation and amortization on the straight-line method at rates designed to depreciate the cost of assets over estimated useful lives as follows:

Building and improvements	25 years
Furniture and equipment	3 - 10 years
Website design	5 years

Contributions Receivables

Unconditional promises to give are recognized as revenue in the period the pledge is received. Conditional promises to give are recognized when the conditions on which they depend are substantially met. Educare uses the specific allowance method to determine uncollectible promises to give. Any allowance is based on previous experience and management's analysis of specific promises made. There was no allowance for uncollectible promises to give at June 30, 2017 as management believes all contributions will be collected.

Program Service Fee Receivable and Allowance

Program service fee receivable consists of the parent fees. An allowance is calculated based on the age of the receivables and the likelihood of collection, which amounted to \$6,048 at June 30, 2017. Uncollectible accounts are written off in the year they are deemed uncollectible.

Support and Revenue

Educare reports gifts of cash and other assets as restricted support if they are received with donor stipulations that limit the use of the donated assets. When a donor restriction expires, that is, when a stipulated time restriction ends or purpose restriction is accomplished, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets released from restrictions.

Government Grants

Support funded by government contracts, which qualify as exchange transactions, are recognized when the contracted services have been performed. Revenue is therefore recognized as earned as the eligible expenses are incurred. These expenditures are subject to audit and acceptance by the granting organization and, as a result of such audit, adjustments could be required.

EDUCARE OF WEST DUPAGE
NOTES TO FINANCIAL STATEMENTS
June 30, 2017

Note 1 – Nature of Operations and Summary of Significant Accounting Policies (cont.)

Donated Services

Contributions of services are required to be recognized if the services received (a) create or enhance non-financial assets or (b) require specialized skills and are provided by individuals possessing those skills, and would typically need to be purchased if not provided by donation. For the year ended June 30, 2017, Educare received \$52,507 of donated custodial and other services meeting the above criteria.

In-Kind Contributions

In addition to receiving cash contributions, Educare receives in-kind contributions from various donors. It is the policy of Educare to record the estimated fair value of certain in-kind donations as an expense in its financial statements, and similarly increase donations by a like amount. For the year ended June 30, 2017, Educare received in-kind donations for facility use valued at \$101,903.

Certain Vulnerabilities and Concentrations

During the year ended June 30, 2017 amounted to \$3,460,897, the Organization received approximately 80% of its funding from three government sources. Of the pledges receivable, 100% is due from one donor. Furthermore, 100% of the government receivable is due from three different agencies. Educare continues to pursue additional sources of funding.

Comparative Information

The financial statements include certain prior-year summarized comparative information in total but not by net asset class, which does not provide sufficient detail to constitute a presentation in conformity with U.S. generally accepted accounting principles. Accordingly, such prior year information should be read in conjunction with the Foundation's audited financial statements for the year ended June 30, 2016, from which the summarized information was derived.

Functional Allocation of Expenses

The costs of providing various programs and other activities have been summarized on a functional basis in the Statement of Activities and the Statement of Functional Expenses. Accordingly, certain costs have been allocated among the programs and supporting services benefited.

Subsequent Events

Accounting principles generally accepted in the United States of America establish general standards of accounting for, and disclosure of, events that occur after the balance sheet date but before financial statements are issued or are available to be issued. The Organization has evaluated subsequent events through the date of the report on the financial statements, which is the date the statements were available to be issued. No subsequent events have been identified that are required to be disclosed as of that date.

**EDUCARE OF WEST DUPAGE
NOTES TO FINANCIAL STATEMENTS
June 30, 2017**

Note 2 – Contributions Receivable

As of June 30, 2017, contributions receivable are as follows:

	Current	Long-Term	Temporarily Restricted
Due within one year	\$ 200,000	\$ -	\$ 200,000
Due in 1 - 5 years	-	800,000	800,000
	<u>200,000</u>	<u>800,000</u>	<u>1,000,000</u>
Less discount at rate of 1.61%	-	(31,192)	(31,192)
	<u>\$ 200,000</u>	<u>\$ 768,808</u>	<u>\$ 968,808</u>

As of June 30, 2017, contributions receivable over one year were discounted based upon payment terms using a discount factor of 1.61%, which reflects the ten year U.S. Treasury rate as of the date of donation.

Note 3 – Retirement Plan

The Organization maintains a 401(k) defined contribution plan for the benefit of substantially all of its employees, which allows for both employee and employer contributions. Contributions to the plan are at the discretion of the Board of Directors and are based on a percent of each eligible employee's total compensation up to 2%. The Board of Directors authorized \$42,160 in employer contributions for the year ending June 30, 2017.

Note 4 – Commitments

During September 2010, Educare entered into a lease agreement with West Chicago Elementary School District No. 33 (School District) that requires the ownership of the Educare facility to be transferred to the School District as of the later of the date on which the facility is substantially complete or when any loans procured by Educare to finance the cost of constructing the facility have been repaid in full. As of June 30, 2017, the facility is complete and the construction loan has been paid in full. As of the date of the audit report, title has not yet been transferred to Educare. The School District is also leasing the land for the facility site to Educare for \$100. The lease agreement obligates the School District to provide all utilities and maintenance, other than major improvements in excess of \$10,000 or more. The lease agreement is for twenty-five years, ending September 2035, as long as Educare uses and occupies the facility as an early childhood education and care center and for no other purpose unless approved by the School District.

**EDUCARE OF WEST DUPAGE
NOTES TO FINANCIAL STATEMENTS
June 30, 2017**

Note 5 – Temporarily Restricted Net Assets

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

Gustafon Family Foundation Challenge Grant	\$ 41,110
Future periods included in contribution receivable	<u>968,808</u>
	<u>\$ 1,009,918</u>