EVERGREEN CHILDREN'S ASSOCIATION DBA KIDS CO.

AUGUST 31, 2018
FINANCIAL STATEMENTS
Independent Auditors' Report

Board of Directors
Evergreen Children's Association dba Kids Co.
Seattle, Washington

We have audited the accompanying financial statements of Evergreen Children's Association dba Kids Co. (Kids Co.) (a nonprofit organization), which comprise the statement of financial position as of August 31, 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.

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.

Auditors’ 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 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.

Bader Martin, P. S. Certified Public Accountants + Business Advisors
1000 Second Avenue, 34th Floor, Seattle, Washington 98104-1022 | 206.621.1900 | FAX 206.682.1874 | www.badermartin.com
Board of Directors
Evergreen Children's Association dba Kids Co.
Seattle, Washington

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Kids Co. as of August 31, 2018, 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 Adjustments to Opening Net Assets

As described in Note 6, certain adjustments were applied to restate beginning unrestricted net assets.

Bader Martin, P.S.

April 22, 2019
# EVERGREEN CHILDREN'S ASSOCIATION DBA KIDS CO.

## STATEMENT OF FINANCIAL POSITION

**AUGUST 31, 2018**

### ASSETS

<table>
<thead>
<tr>
<th>Current assets:</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Cash and cash equivalents</td>
<td>$ 829,768</td>
</tr>
<tr>
<td>Accounts receivable, net</td>
<td>47,958</td>
</tr>
<tr>
<td>Prepaid expenses and deposits</td>
<td>58,110</td>
</tr>
<tr>
<td><strong>Total current assets</strong></td>
<td><strong>935,836</strong></td>
</tr>
<tr>
<td>Property and equipment, net</td>
<td>51,057</td>
</tr>
<tr>
<td><strong>Total assets</strong></td>
<td><strong>986,893</strong></td>
</tr>
</tbody>
</table>

### LIABILITIES AND NET ASSETS

<table>
<thead>
<tr>
<th>Current liabilities:</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Accounts payable</td>
<td>$ 65,082</td>
</tr>
<tr>
<td>Accrued salaries and payroll taxes</td>
<td>129,881</td>
</tr>
<tr>
<td>Compensated absences</td>
<td>144,266</td>
</tr>
<tr>
<td>Refundable deposits</td>
<td>59,600</td>
</tr>
<tr>
<td>Unearned program fees</td>
<td>28,495</td>
</tr>
<tr>
<td>Lease incentive, current portion</td>
<td>790</td>
</tr>
<tr>
<td><strong>Total current liabilities</strong></td>
<td><strong>428,114</strong></td>
</tr>
</tbody>
</table>

| Lease incentive, less current portion     | 2,634 |
| **Total liabilities**                    | **430,748** |
| Unrestricted net assets                   | 556,145 |
| **Total liabilities**                    | **986,893** |

See notes to financial statements.

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EVERGREEN CHILDREN'S ASSOCIATION DBA KIDS CO.

STATEMENT OF ACTIVITIES

YEAR ENDED AUGUST 31, 2018

Revenue and support:
  Program service fees, net $ 3,861,334
  In-kind contributions 163,428
  Contributions 119,800
  Miscellaneous revenue 1,793
  Interest income 2,975

  Total revenue and support 4,149,330

Expenses:
  Program services 3,676,927
  Management and general 434,167
  Fundraising 93,547

  Total expenses 4,204,641

Change in unrestricted net assets (55,311)

Unrestricted net assets, beginning of year (restated) 611,456

Unrestricted net assets, end of year $ 556,145

See notes to financial statements.
# EVERGREEN CHILDREN'S ASSOCIATION DBA KIDS CO.

## STATEMENT OF FUNCTIONAL EXPENSES

### YEAR ENDED AUGUST 31, 2018

<table>
<thead>
<tr>
<th></th>
<th>Program services</th>
<th>Management and general</th>
<th>Fundraising</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Salaries and wages</td>
<td>$2,362,297</td>
<td>$146,064</td>
<td>$60,666</td>
<td>$2,569,027</td>
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<tr>
<td>Payroll taxes and benefits</td>
<td>457,460</td>
<td>15,692</td>
<td>10,075</td>
<td>483,227</td>
</tr>
<tr>
<td><strong>Total salaries and related expenses</strong></td>
<td><strong>2,819,757</strong></td>
<td><strong>161,756</strong></td>
<td><strong>70,741</strong></td>
<td><strong>3,052,254</strong></td>
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<tr>
<td>Supplies</td>
<td>177,738</td>
<td>16,201</td>
<td>704</td>
<td>194,643</td>
</tr>
<tr>
<td>Occupancy</td>
<td>151,318</td>
<td>38,210</td>
<td>3,598</td>
<td>193,126</td>
</tr>
<tr>
<td>Professional services</td>
<td>120,224</td>
<td>65,300</td>
<td>6,664</td>
<td>192,188</td>
</tr>
<tr>
<td>In-kind expenses</td>
<td>163,428</td>
<td></td>
<td></td>
<td>163,428</td>
</tr>
<tr>
<td>Miscellaneous</td>
<td>12,986</td>
<td>64,794</td>
<td>5,563</td>
<td>83,343</td>
</tr>
<tr>
<td>Postage and telephone</td>
<td>30,607</td>
<td>9,762</td>
<td>1,425</td>
<td>41,794</td>
</tr>
<tr>
<td>Depreciation</td>
<td>23,618</td>
<td>15,382</td>
<td></td>
<td>39,000</td>
</tr>
<tr>
<td>Field trips</td>
<td>37,605</td>
<td></td>
<td></td>
<td>37,605</td>
</tr>
<tr>
<td>Staff development and appreciation</td>
<td>26,699</td>
<td>9,273</td>
<td>860</td>
<td>36,832</td>
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<tr>
<td>Insurance</td>
<td>33,030</td>
<td>3,394</td>
<td></td>
<td>36,424</td>
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<tr>
<td>Travel</td>
<td>16,610</td>
<td>18,152</td>
<td>1,279</td>
<td>36,041</td>
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<tr>
<td>Minor maintenance and equipment</td>
<td>22,756</td>
<td>8,380</td>
<td>933</td>
<td>32,069</td>
</tr>
<tr>
<td>Business taxes</td>
<td>19,229</td>
<td>3,116</td>
<td>83</td>
<td>22,428</td>
</tr>
<tr>
<td>Advertising</td>
<td>9,943</td>
<td>9,322</td>
<td>423</td>
<td>19,688</td>
</tr>
<tr>
<td>Printing and copying</td>
<td>4,640</td>
<td>9,332</td>
<td>1,274</td>
<td>15,246</td>
</tr>
<tr>
<td>Bad debt expense</td>
<td>6,739</td>
<td>1,793</td>
<td></td>
<td>8,532</td>
</tr>
<tr>
<td><strong>Total expenses</strong></td>
<td><strong>$3,676,927</strong></td>
<td><strong>$434,167</strong></td>
<td><strong>$93,547</strong></td>
<td><strong>$4,204,641</strong></td>
</tr>
</tbody>
</table>

See notes to financial statements.
Cash flows from operating activities:

Change in unrestricted net assets $ (55,311)

Adjustments to reconcile change in unrestricted net assets to net cash used in operating activities:

Depreciation 39,000
Loss on capital lease disposition 3,951

Changes in operating assets and liabilities:

Accounts receivable, net (2,901)
Contributions receivable 10,000
Prepaid expenses and deposits (6,984)
Accounts payable 9,590
Accrued salaries and payroll taxes 10,371
Compensated absences (10,890)
Refundable deposits 8,250
Unearned program fees (32,756)
Lease incentive 3,424

Net cash used in operating activities (24,256)

Cash used in investing activities for the purchase of property and equipment (23,257)

Cash used in financing activities for the repayment of capital lease obligations (6,928)

Change in cash and cash equivalents (54,441)

Cash and cash equivalents, beginning 884,209

Cash and cash equivalents, ending $ 829,768

See notes to financial statements.
1. Organization and summary of significant accounting policies:

Organization:

Evergreen Children's Association dba Kids Co. (Kids Co.) is organized as a Washington nonprofit corporation. The mission of Kids Co. is to provide and advocate for quality child care that enriches and nurtures all children, and supports their success in school and life.

Kids Co. is an organization truly focused on quality care. Kids Co.’s programs support efforts that prepare children for emotional, social, and academic success. Kids Co. is considered a premier provider of preschool and after school care for children in the Greater Seattle area. Since Kids Co. was founded in 1989, it has maintained a philosophy of turning no child away based solely on family income and ability to pay.

Cash and cash equivalents:

Kids Co. considers all highly liquid investments with maturities of three months or less to be cash equivalents. At times, cash and cash equivalent balances may be in excess of federally insured limits.

Accounts receivable:

Accounts receivable are stated at the amount management expects to collect from outstanding balances. Management provides for uncollectible amounts through a charge to earnings and a credit to a valuation allowance based on its assessment of the current status of individual accounts. There is no interest or service charge on delinquent accounts. Specific amounts are written off as uncollectible after management has used all reasonable means to collect. Accounts receivable includes an allowance for doubtful accounts of $3,295 at August 31, 2018. Approximately 50% of accounts receivable were due from a government agency at August 31, 2018.
EVERGREEN CHILDREN’S ASSOCIATION DBA KIDS CO.
NOTES TO FINANCIAL STATEMENTS (CONTINUED)

1. Organization and summary of significant accounting policies (continued):

Property and equipment:

Property and equipment are stated at cost if purchased or at estimated fair value at date of receipt if received as a donation. Depreciation is provided using the straight-line method over the assets’ estimated useful lives which range from three to five years. Depreciation of leasehold improvements is provided using the straight-line method over the term of the related leases or over the estimated useful life of the asset, whichever is shorter. Kids Co. capitalizes all expenditures of $1,000 or greater for property and equipment with an estimated useful life greater than one year. Expenditures for normal maintenance and repairs are expensed as incurred.

Compensated absences:

Employees of Kids Co. are entitled to paid vacation, paid sick days, and personal days off, depending on job classification, length of service, and other factors. These amounts are recognized as expenses in the period when employees provide services to be qualified for compensated absences, and a liability is recorded for any unused compensated absences.

Refundable deposits:

Refundable deposits are initial deposits for child care services and are generally refunded when a child is withdrawn from the program.

Program service fees and unearned program fees:

Kids Co. receives program service fees from its various programs. These amounts are recognized as revenue when the services are performed. Unearned program fees represent amounts that have been received but have not yet been earned.

Kids Co. provides financial aid in the form of program service fee reductions. The amount of financial aid for each recipient is determined by the President of Kids Co. and is based on the available financial resources of the recipient’s family. Program service fees on the statements of activities are reported net of financial aid in the amounts of $395,909 for the year ended August 31, 2018.
EVERGREEN CHILDREN’S ASSOCIATION DBA KIDS CO.
NOTES TO FINANCIAL STATEMENTS (CONTINUED)

1. Organization and summary of significant accounting policies (continued):

   Program service fees and unearned program fees (continued):

   Approximately 77% and 23% of gross program service fees received during 2018 were from programs within the Seattle School District and the Mercer Island School District, respectively.

   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 or permanently restricted support that increases those net asset classes. However, if a restriction is fulfilled in the same reporting period in which the contribution is received, Kids Co. reports the support as unrestricted.

   Contributions of goods, other assets and services provided by specialists that would otherwise be purchased if not provided by donation are recorded at their estimated fair value on the date received or pledged. In-kind contributions recorded in the financial statements consist of rent-free space and other donated services.

   Functional allocation of expenses:

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

   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 revenue and expense during the reporting period. Actual results could differ from those estimates.
EVERGREEN CHILDREN’S ASSOCIATION DBA KIDS CO.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

1. Organization and summary of significant accounting policies (continued):

   Advertising:

   Advertising costs are expensed when incurred.

   Income taxes:

   Kids Co. is exempt from federal income tax under section 501(c)(3) of the Internal Revenue Code (IRC), and accordingly, is exempt from federal income taxes under the provisions of section 501(a) of the IRC.

   Kids Co. evaluates its uncertain tax positions and a loss contingency is recognized when it is more likely than not that a liability has been incurred by Kids Co. as of the date of the financial statements and the amount can be reasonably estimated.

   Retirement plan:

   Employees of Kids Co. may participate in the Evergreen Children’s Association dba Kids Co. 403(b) Plan. The retirement plan is sponsored by the Organization and funded solely by employee contributions to the plan, pursuant to a salary reduction agreement.

   Subsequent events:

   Kids Co. has evaluated subsequent events through April 22, 2019, the date the financial statements were available to be issued.

2. Contributions receivable:

   Unconditional promises to give are recorded as contributions receivable and revenue when pledged. Kids Co. distinguishes between contributions received for each net asset category in accordance with donor-imposed restrictions, if any. Kids Co. received a $25,000 unconditional promise to give during the year ended August 31, 2015, payable in annual installments over five years. No restrictions were imposed by the donor. As of August 31, 2018, the promise to give was fully collected.
3. Property and equipment:

Property and equipment consists of the following at August 31, 2018:

<table>
<thead>
<tr>
<th>Item</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Furniture and equipment</td>
<td>$247,864</td>
</tr>
<tr>
<td>Leasehold improvements</td>
<td>129,148</td>
</tr>
<tr>
<td>Web design</td>
<td>60,887</td>
</tr>
</tbody>
</table>

437,899

Less accumulated depreciation (386,842)

$51,057

4. Operating leases:

Kids Co. is committed under various operating lease agreements expiring through August 2020 for office space. Rental expense related to the lease agreements was approximately $97,800 for the year ended August 31, 2018 and is included in occupancy expense. The future minimum rental payments required under the leases for the years ending August 31, 2019 and 2020 are approximately $87,200 and $64,700, respectively.

Kids Co. is committed under an operating lease agreement through June 2019 for classroom space in the Mercer Island School District. Under the agreement Kids Co. is to pay 10% of the gross fees received from Kids Co.’s Mercer Island programs. Rental expense related to the lease agreement was approximately $77,100 for the year ended August 31, 2018. Kids Co. has the option of extending the lease agreement for an additional one-year term.

During 2018, Kids Co. entered into an operating lease agreement through December 2022 for copiers. The lessor provided a lease incentive of approximately $3,950 which is being amortized over the term of the lease. The related expense net of lease incentive amortization was approximately $12,000 for the year ended August 31, 2018, and is included in minor maintenance and equipment expense. The future minimum lease payments are approximately $1,600 per month.
5. Capital leases:

Kids Co. had various capital lease agreements for copiers. Furniture and equipment included costs of $72,256 and accumulated depreciation included $56,571 related to the capitalized equipment at August 31, 2017. The effective interest rate for the capital leases was approximately 3%. During 2018, Kids Co. entered into new operating leases with a new lessor. The copiers were returned and a loss on disposal of $3,951 was realized and included in program services - miscellaneous expense.

6. Restatement:

Unrestricted net assets at September 1, 2017, has been restated to correct the amount accrued for compensated absences by Kids Co. The effect of this adjustment at September 1, 2017, was a reduction of $61,468 to unrestricted net assets of $672,924 (as reported) to $611,456 (as restated). Had the error not occurred, the change in net assets for the year ended August 31, 2017 of ($236,888) (as reported) would have been ($280,198) (as restated).