BLOOM EARLY LEARNING

FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2016

LA FAYETTE, MELSSEN & PLATH, LTD.

CERTIFIED PUBLIC ACCOUNTANTS

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CERTIFIED PUBLIC ACCOUNTANTS

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# INDEPENDENT AUDITOR'S REPORT

To the Board of Directors and Management
Bloom Early Learning
17805 County Road 6
Minneapolis, MN 55447

We have audited the accompanying financial statements of Bloom Early Learning (a nonprofit organization), which comprise the statement of financial position as of December 31, 2016, 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 Bloom Early Learning as of December 31, 2016, 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 the Organization's 2015 financial statements, and we expressed an unmodified opinion on those financial statements in our report dated January 22, 2016. In our opinion, the summarized comparative information presented herein as and for the year ended December 31, 2015, is consistent, in all material respects, with the audited financial statements from which it has been derived.

**Certified Public Accountants**
**May 12, 2017**

BLOOM EARLY LEARNING

STATEMENT OF FINANCIAL POSITION

DECEMBER 31, 2016

(with summarized financial information for the year ended December 31, 2015)

| | | 2016 | | 2015 |
|---|---|---|---|---|
| ASSETS | | | | |
| Current Assets | | | | |
| Cash | $ | 175,584 | $ | 167,456 |
| Contributions receivable | | 20,754 | | 23,144 |
| State grant receivable | | 4,266 | | 4,000 |
| Accounts receivable, net | | 29,122 | | 10,907 |
| Prepaid expenses | | 8,720 | | 12,762 |
| Total Current Assets | | 238,446 | | 218,269 |
| Equipment, Improvements and Intangible Assets | | | | |
| Program equipment | | 29,020 | | 29,020 |
| Facility improvements | | 75,536 | | 75,536 |
| Rebranding | | 13,500 | | 13,500 |
| Web-site | | 7,000 | | 7,000 |
| Less accumulated depreciation | | (46,612) | | (37,690) |
| Total Equipment and Improvements | | 78,444 | | 87,366 |
| TOTAL ASSETS | $ | 316,890 | $ | 305,635 |
| LIABILITIES AND NET ASSETS | | | | |
| Current Liabilities | | | | |
| Accrued expenses | $ | 24,578 | $ | 18,729 |
| Accounts payable | | 2,122 | | 347 |
| Client deposits | | - | | 200 |
| Total Current Liabilities | | 26,700 | | 19,276 |
| Net Assets | | | | |
| Unrestricted | | 235,652 | | 242,950 |
| Temporarily restricted | | 54,538 | | 43,409 |
| Total Net Assets | | 290,190 | | 286,359 |
| TOTAL LIABILITIES AND NET ASSETS | $ | 316,890 | $ | 305,635 |

BLOOM EARLY LEARNING

STATEMENT OF ACTIVITIES

YEAR ENDED DECEMBER 31, 2016

(with summarized financial information for the year ended December 31, 2015)

| | 2016 | | | 2015 |
|---|---|---|---|---|
| | Unrestricted | Temporarily Restricted | Total | Total |
| Support and Revenue | | | | |
| Support | | | | |
| Contributions | $ 40,240 | $ 164,967 | $ 205,207 | $ 158,699 |
| State grant | 17,419 | - | 17,419 | 14,020 |
| Total Support | 57,659 | 164,967 | 222,626 | 172,719 |
| Revenue | | | | |
| Tuition | 819,234 | - | 819,234 | 655,419 |
| Food program | 27,811 | - | 27,811 | 20,611 |
| Annual gala ticket sales | 10,450 | - | 10,450 | 5,524 |
| Registration fees | 640 | - | 640 | 720 |
| Interest | 131 | - | 131 | - |
| Other | 4 | - | 4 | 400 |
| Net assets released from restrictions | 153,838 | (153,838) | - | - |
| Total Revenue | 1,012,108 | (153,838) | 858,270 | 682,674 |
| Total Support and Revenue | 1,069,767 | 11,129 | 1,080,896 | 855,393 |
| Expenses | | | | |
| Program | 922,011 | - | 922,011 | 750,703 |
| Costs of direct benefit to donors | 10,466 | - | 10,466 | 5,574 |
| Management and general | 79,895 | - | 79,895 | 80,561 |
| Fundraising | 64,693 | - | 64,693 | 35,722 |
| Total Expenses | 1,077,065 | - | 1,077,065 | 872,560 |
| Increase (Decrease) in net assets | (7,298) | 11,129 | 3,831 | (17,167) |
| Net Assets, beginning of year | 242,950 | 43,409 | 286,359 | 307,526 |
| Prior period adjustments | - | - | - | (4,000) |
| Restated beginning net assets | 242,950 | 43,409 | 286,359 | 303,526 |
| Net Assets, end of year | $ 235,652 | $ 54,538 | $ 290,190 | $ 286,359 |

See Accompanying Notes to Financial Statements.

BLOOM EARLY LEARNING

STATEMENT OF FUNCTIONAL EXPENSES

YEAR ENDED DECEMBER 31, 2016

(with summarized financial information for the year ended December 31, 2015)

| | 2016 | | | | | 2015 |
|---|---|---|---|---|---|---|
| Expenses | Program | Costs of direct benefits to donors | Management and general | Fundraising | Total | Total |
| Salaries | $ 484,518 | $ - | $ 48,578 | $ 53,155 | $ 586,251 | $ 491,709 |
| Scholarships | 171,256 | - | - | - | 171,256 | 125,149 |
| Benefits and Insurance | 103,810 | - | 7,551 | 2,745 | 114,106 | 89,223 |
| Payroll Taxes | 40,414 | - | 5,230 | 1,902 | 47,546 | 38,360 |
| Food Program | 42,621 | - | - | - | 42,621 | 34,877 |
| Facility | 38,451 | - | 2,309 | 67 | 40,827 | 28,810 |
| Supplies | 16,643 | - | 3,898 | - | 20,541 | 16,782 |
| Administrative | 6,232 | - | 6,283 | 173 | 12,688 | 13,818 |
| Development | - | 10,466 | - | 6,651 | 17,117 | 11,720 |
| Depreciation Expense | 8,476 | - | 446 | - | 8,922 | 9,509 |
| Professional Fees | - | - | 5,600 | - | 5,600 | 5,008 |
| Field Trips | 6,222 | - | - | - | 6,222 | 4,255 |
| Licenses and Permits | 3,368 | - | - | - | 3,368 | 3,340 |
| | $ 922,011 | $ 10,466 | $ 79,895 | $ 64,693 | $ 1,077,065 | $ 872,560 |
| | 87% | 1% | 7% | 6% | 100% | |

See Accompanying Notes to Financial Statements.

# BLOOM EARLY LEARNING

## STATEMENT OF CASH FLOWS

## FOR THE YEAR ENDED DECEMBER 31, 2016

(with summarized financial information for the year ended December 31, 2015)

| | 2016 | 2015 |
|---|---|---|
| Cash flows from operating activities | | |
| Change in net assets | $ 3,831 | $ (17,167) |
| Adjustments to reconcile change in net assets to net cash provided by operating activities | | |
| Depreciation | 8,922 | 9,509 |
| Allowance for doubtful accounts | (1,396) | (104) |
| Receivables | (14,695) | (2,577) |
| Prepaid expenses | 4,042 | 216 |
| Client deposits | 1,775 | (500) |
| Accounts payable | (200) | 35 |
| Accrued expenses | 5,849 | 14,247 |
| Net cash provided by operating activities | 8,128 | 3,659 |
| Cash flows from investing activities | | |
| Purchase of equipment and improvements | - | (58,996) |
| Net cash (used in) investing activities | - | (58,996) |
| Increase (decrease) in cash | 8,128 | (55,337) |
| Cash, beginning of year | 167,456 | 222,793 |
| Cash, end of year | $ 175,584 | $ 167,456 |

See Accompanying Notes to Financial Statements.

## NATURE OF ACTIVITIES

Bloom passionately strives to break the cycle of poverty at the start through nurturing care and an exceptional early learning program. We prepare young children for success in school and enable their parents to pursue educational and employment opportunities. The Organization is located at Messiah United Methodist Church in Plymouth, Minnesota. Programs are designed to provide age-appropriate activities that emphasize individual development for children from 6-weeks to 5 years of age. The Organization began serving the community on July 1, 2000.

## SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

### *Basis of Presentation*

The accompanying financial statements have been prepared on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America applicable to not-for-profit organizations. Net assets, revenues, expenses, gains, and losses are classified based on the existence or absence of donor-imposed restrictions. Accordingly, the net assets of the Organization and the changes therein are classified and reported as follows:

*Unrestricted Net Assets* - Unrestricted net assets are not subject to donor-imposed stipulations. Unrestricted net assets may be designated for specific purposes by action of the Board of Directors.

*Temporarily Restricted Net Assets* - Temporarily restricted net assets are subject to donor-imposed stipulations that may or will be met, either by actions of the Organization and/or the passage of time.

*Permanently Restricted Net Assets* - Permanently restricted net assets are subject to donor-imposed stipulations that they be maintained permanently by the Organization. The Organization had no permanently restricted net assets at December 31, 2016.

### *Income Taxes*

The Organization is exempt from federal income tax under section 501(c)(3) of the Internal Revenue Code and is not considered a private foundation. Management has evaluated for uncertain tax positions and has determined there are no uncertain tax positions as of December 31, 2016. Tax returns for the past three years remain open for examination by tax jurisdictions.

### *Advertising*

The Organization expenses advertising as incurred.

*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 reported amounts of revenue and expenses during the reporting period. Accordingly, actual results could differ from those estimates. Such estimates include functional expense allocation and estimated useful life of capitalized assets.

*Contributions Receivable*

Contributions receivable represent unconditional commitments from foundations, corporations, and individuals. The Organization periodically reviews individual accounts, and as of December 31, 2016, no allowance for uncollectible accounts was considered necessary.

*Accounts Receivable and Valuation Allowance*

Accounts receivable are stated at the amount management expects to collect from outstanding balances. Management provides for uncollectable amounts through a charge to activities and a credit to a valuation allowance based on its assessment of the current status of individual accounts. Balances still outstanding after management has used reasonable collection efforts are written off through a charge to the valuation allowance and a credit to tuition fee receivables. Management has determined that the receivable is fully collectable; therefore no allowance for uncollectible accounts is considered necessary as of December 31, 2016.

*State Grant Receivable*

State grant receivable represent amounts due from the Minnesota Department of Education - Pathways II Early Learning Scholarships for tuition fees provided under the terms of the agreement. Management has determined that the receivable is fully collectable; therefore no allowance for uncollectible accounts is considered necessary as of December 31, 2016.

*Functional Allocation of Expenses*

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

*Equipment, Improvements and Intangible Assets*

Equipment, improvements and intangible assets are capitalized at cost or, if contributed, at fair market value on the date received. Depreciation is computed using the straight-line basis over the estimated useful life of the assets.

When equipment, improvements and intangible assets are retired or otherwise disposed of, the cost and related accumulated depreciation are removed from the accounts. Any resulting gain or loss on disposal is recognized as income or expense at the time of retirement or disposal. Maintenance and repair expenditures are expensed as incurred.

Currently, the Organization does not have a written fixed asset capitalization policy. However, management has traditionally recorded all fixed asset purchases for which it was estimated that the life of the item was greater than one year on the balance sheet for an individual item (or group of similar items) of $1,500 or more.

*Contributions*

The Organization 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. Restricted contributions for which the restrictions are met in the year received are considered unrestricted for financial statement purposes. When a donor restriction expires, that is, when a stipulated time restriction ends or the 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.

Revenues and Expenses

Support and revenue are reported as increases in unrestricted net assets unless use of the related assets is limited by donor-imposed restrictions. Expenses are reported as decreases in unrestricted net assets. Donations are measured at their fair value and reported as increases in net assets.

*In-Kind Contributions*

Donated goods, equipment, services, and facilities are recorded at fair value at the date of donation. Donated services are recorded when there is an objective basis to measure the value of such services and the service involves specialized skills that would be purchased, if not provided by donation.

### Subsequent Events

Subsequent events are events or transactions that occur after the statement of financial position date but before financial statements are issued. The Organization recognizes in the financial statements the effects of all subsequent events that provide additional evidence about conditions that existed at the date of the statement of financial position, including the estimates inherent in the process of preparing the financial statements. The Organization's financial statements do not recognize subsequent events that provide evidence about conditions that did not exist at the date of the statement of financial position but arose after the statement of financial position date and before the financial statements were available to be issued.

The Organization has performed an evaluation of subsequent events through May 12, 2017, which is the date the financial statements were available to be issued.

## LEASE OBLIGATION AND RELATED PARTIES

The Organization rents facility space from Messiah United Methodist Church (The Church). The lease term is effective January 1, 2016 through December 31, 2020. The lease calls for monthly rent payments of $2,000.

Total rent expense incurred by the Organization for 2016 was $24,000.

The following discloses the future minimum lease payments:

| | |
|---|---|
| 2017 | $ 24,000 |
| 2018 | 24,000 |
| 2019 | 24,000 |
| 2020 | 24,000 |
| Total | $ 96,000 |

The organization also uses several pieces of The Church's office equipment (which Bloom does not own) throughout the year. The two entities have set-up a system in which usage can be tracked by user. The Church, from time-to-time, invoices the Organization for its use of the equipment, based on pre-established rates. Further, The Church donates back to the Organization the rent paid, which amounted to $24,000 as of December 31, 2016.

Several board members of the Organization donated a combined total of approximately $27,298 as of December 31, 2016 to support the mission of the Organization, mainly to fund scholarships to families in need.

## BUSINESS CONCENTRATIONS

Substantially all of the Organization's revenue is derived from providing child care. Further, all of the Organization's clients are located near the location of the Organization. In addition, the Organization relies on local government childcare subsidies for certain families to reimburse the Organization for operating costs.

## PRIOR YEAR INFORMATION

The financial statements include certain prior year summarized comparative totals as of and for the year ended December 31, 2015. Such information does not include sufficient detail to constitute a presentation in conformity with accounting principles generally accepted in the United States of America. Accordingly, such information should be read in conjunction with the financial statements for the year ended December 31, 2015, from which the summarized information was derived.

## CONCENTRATION OF CREDIT RISK

The Organization maintains its cash in bank accounts which, at times, may exceed federally insured limits. The Organization has not experienced any losses in such accounts.

## PRIOR PERIOD ADJUSTMENTS

There were two prior period adjustments made which affected the December 31, 2015 financial statements, which included the write-off of a previously listed $2,000 security deposit and a $2,000 contribution receivable. This had the impact of lowing previously shown December 31, 2015 total assets and unrestricted net assets by $4,000, respectively.

## TEMPORARILY RESTRICTED NET ASSETS

Temporarily restricted net assets are subject to donor imposed stipulations that may or will be met, either by actions of the Organization and/or the passage of time.

Temporarily restricted net assets are available for use after December 31, 2016 for the following program:

| | |
|---|---|
| Scholarships | $ 54,538 |

## SCHOLARSHIP PARTNERS

Years ago, the board of Bloom Early Learning along with the Wayzata School District and Interfaith Outreach & Community Partners (IOCP) established a joint initiative called Caring for Kids Initiative (CFKI). CFKI was formed to expand the availability of scholarships to low-income families and to make available high quality (nationally accredited) early childhood programs within the Wayzata School District. In 2011, CFKI became an official program of IOCP, a 501(c)(3) non-profit organization. Bloom's Executive Director and a Board member serve on the CFKI executive committee.

When CFKI became a funded program under IOCP, the original three partners expanded CFKI's services to include case management and family resources from IOCP, parenting education and support, plus early childhood special education services from the Wayzata School District. Early childhood care and education services as well as a demonstration site and coordination of the Quality Providers Network of accredited programs are also provided.

CFKI raises scholarship funds from foundations through grant applications prepared by IOCP staff as well as through fundraising events and other activities. Families who need scholarships apply to a case worker at CFKI, who assesses eligibility and provides information about the child care facilities within the network. Parents then visit and choose the program for their child. Bloom Early Learning is one of the choices. If Bloom Early Learning is chosen, CFKI has guaranteed to fund all or a portion of the cost of such services. The child must attend and continue to qualify for the services. Based on the conditions of the guaranteed funding, no scholarship receivable from CFKI is required.

## EMPLOYEE BENEFITS

The Organization offers employees who work 24 hours per week or more and have met any required eligibility period, health insurance coverage, where the Organization will pay 90% of the premium and the employee pays 10%. Dental insurance coverage is also offered where the employee is responsible for 100% of the premium. In addition, the Organization offers its employees a 50% to 75% discount on standard tuition rates for their eligible children to attend the Organization's program. The amount of the discount is generally based on employee classification levels.

## GRANT

The Organization has a fee for service contract with the Minnesota Department of Education - Pathways II Early Learning Scholarships where the award is based on a school year period July 1 through June 30. Under the award, the Organization selects eligible families, generally based on federal family income guidelines. The total award received from the 2016-2017 award period amounted to $15,000, of which $8,581 remains available through June 30, 2017.

BLOOM EARLY LEARNING

NOTES TO FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2016
(CONTINUED)

RECLASSIFICATIONS

Certain prior year amounts have been reclassified to conform to the current year presentation. These reclassifications had no effect on previously reported changes in net assets.

FUTURE EXPANSION

In 2015, the Bloom Board of Directors adopted a 5-year strategic plan that envisioned serving 150 children and their families by the year 2020. The first step was to build out a fourth classroom in the Messiah Church space, bringing our capacity from 52 to 70 children. The Bloom Board of Directors also created a Strategic Planning Committee to outline the steps needed to attain the goal of serving 150 children. One component of the Strategic Planning Committee's work is to evaluate the feasibility and requirements of expanding Bloom's services to one or more sites in addition to the Messiah Church site. In February 2017, the Bloom Board of Directors authorized spending of up to $20,000 for a feasibility study to evaluate the short-term and long-term funding potential from donors to support an additional site(s).