

**MALAIKA EARLY
LEARNING CENTER, INC.**

Financial Statements

Years Ended June 30, 2014 and 2013

**MALAIKA EARLY
LEARNING CENTER, INC.**

TABLE OF CONTENTS

	<u>Page</u>
INDEPENDENT AUDITORS' REPORT.....	1-2
FINANCIAL STATEMENTS	
Statements of Financial Position.....	3
Statements of Activities.....	4
Statements of Cash Flows.....	5
Notes to Financial Statements.....	6 - 9



INDEPENDENT AUDITORS' REPORT

Board of Directors
Malaika Early Learning Center, Inc.
Milwaukee, Wisconsin

We have audited the accompanying financial statements of Malaika Early Learning Center, Inc. (a not-for-profit organization), which comprise the statements of financial position as of June 30, 2014 and 2013, and the related statements of activities 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 the 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 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 auditors' 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 auditors consider internal control relevant to the Organization'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 Organization'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 Malaika Early Learning Center, Inc. as of June 30, 2014 and 2013 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.

Schenck SC

Certified Public Accountants

Milwaukee, Wisconsin
December 30, 2014

MALAIKA EARLY LEARNING CENTER, INC.

STATEMENTS OF FINANCIAL POSITION
June 30, 2014 and 2013

ASSETS	2014	2013
<u>Current assets</u>		
Cash	\$ 19,395	\$ 23,784
Accounts receivable	32,733	31,428
Prepaid expenses	6,826	900
Total current assets	<u>58,954</u>	<u>56,112</u>
<u>Property and equipment</u>		
Building and improvements	3,218,550	3,218,550
Land	455,980	455,980
School furniture and fixtures	178,149	178,149
Education material	31,907	31,907
Computer equipment and software	37,925	37,925
Vehicles	60,626	60,626
	<u>3,983,137</u>	<u>3,983,137</u>
Less accumulated depreciation	<u>(1,437,441)</u>	<u>(1,318,670)</u>
Net property and equipment	<u>2,545,696</u>	<u>2,664,467</u>
Total assets	<u>\$ 2,604,650</u>	<u>\$ 2,720,579</u>
LIABILITIES AND NET ASSETS		
<u>Current liabilities</u>		
Accounts payable	\$ 5,420	\$ 19,706
Accrued payroll	12,538	10,081
Accrued payroll taxes	13,271	9,338
Accrued payroll deductions	6,260	-
Accrued interest	2,470	422
Deferred revenue	9,500	-
Line of credit - North Milwaukee State Bank	20,000	-
Total current liabilities	<u>69,459</u>	<u>39,547</u>
<u>Long-term liabilities</u>		
Note payable - D. and K. Mueller Revocable Trust	<u>247,000</u>	<u>247,000</u>
Total liabilities	316,459	286,547
<u>Net assets</u>		
Unrestricted	2,288,191	2,424,032
Temporarily restricted	<u>-</u>	<u>10,000</u>
Total net assets	<u>2,288,191</u>	<u>2,434,032</u>
Total liabilities and net assets	<u>\$ 2,604,650</u>	<u>\$ 2,720,579</u>

See the accompanying notes to financial statements.

MALAIKA EARLY LEARNING CENTER, INC.

STATEMENTS OF ACTIVITIES
For the years ended June 30, 2014 and 2013

	2014	2013
Unrestricted net assets		
Revenues, gains and other support		
Private pay childcare tuition	\$ 53,820	\$ 31,586
Childcare payments from W-2 participants	342,041	373,741
State Choice program payments	275,718	271,852
Food service receipts	71,879	56,574
Head Start partnership	76,000	18,889
Private charitable contributions	108,176	94,221
Other revenues	66,411	75,698
Total unrestricted revenues, gains and other support	<u>994,045</u>	<u>922,561</u>
Expenses		
Program expenses		
Salaries, benefits and outside service	541,194	499,575
Occupancy	72,357	88,710
Depreciation	112,832	113,333
Continuing education	9,622	4,295
Food purchases	77,150	87,777
Transportation	21,864	24,875
Other	28,267	25,353
Total program expenses	<u>863,286</u>	<u>843,918</u>
Management and general services		
Salaries and benefits	206,096	182,656
Depreciation	5,939	5,787
Administrative	45,197	54,907
Continuing education	464	709
Interest	10,173	4,670
Other	4,886	3,540
Total management and general services	<u>272,755</u>	<u>252,269</u>
Fundraising		
Salaries and benefits	-	16,712
Consulting	3,000	5,288
Materials and mailing	845	1,005
Total fundraising	<u>3,845</u>	<u>23,005</u>
Total expenses	1,139,886	1,119,192
Net assets released from restrictions	<u>10,000</u>	<u>-</u>
Change in unrestricted net assets	(135,841)	(196,631)
Temporarily restricted net assets		
Contributions	-	10,000
Net assets released from restrictions	<u>(10,000)</u>	<u>-</u>
Change in temporarily restricted net assets	<u>(10,000)</u>	<u>10,000</u>
Change in net assets	(145,841)	(186,631)
Net assets - beginning of year	<u>2,434,032</u>	<u>2,620,663</u>
Net assets - end of year	<u>\$ 2,288,191</u>	<u>\$ 2,434,032</u>

See the accompanying notes to financial statements.

MALAIKA EARLY LEARNING CENTER, INC.

STATEMENTS OF CASH FLOWS
For the years ended June 30, 2014 and 2013

	<u>2014</u>	<u>2013</u>
<u>Cash flows from operating activities:</u>		
Decrease in net assets	\$ (145,841)	\$ (186,631)
Adjustments to reconcile decrease in net assets to net cash provided by operating activities:		
Depreciation	118,771	119,120
Gain on disposal of property and equipment	-	(11,062)
Changes in operating assets and liabilities:		
Accounts receivable	(1,305)	(11,872)
Prepaid expenses	(5,926)	2,816
Accounts payable	(14,286)	12,602
Accrued liabilities	22,150	(790)
Accrued interest	2,048	312
	<u>(24,389)</u>	<u>(75,505)</u>
Net cash used in operating activities	(24,389)	(75,505)
<u>Cash flows from financing activities:</u>		
Borrowings (repayments) on line of credit	20,000	(95,000)
Proceeds from long-term debt	-	247,000
	<u>20,000</u>	<u>152,000</u>
Net cash provided by financing operations	20,000	152,000
<u>Cash flows from investing activities:</u>		
Proceeds of sales of property and equipment	-	11,062
Purchase of property and equipment	-	(76,205)
	<u>-</u>	<u>(65,143)</u>
Net cash used in investing operations	-	(65,143)
Net (decrease) increase in cash	(4,389)	11,352
<u>Cash</u>		
Beginning of year	<u>23,784</u>	<u>12,432</u>
End of year	<u>\$ 19,395</u>	<u>\$ 23,784</u>

See the accompanying notes to financial statements.

MALAIKA EARLY LEARNING CENTER, INC.

NOTES TO FINANCIAL STATEMENTS
June 30, 2014 and 2013

NOTE 1 - Nature of organization

Malaika Early Learning Center, Inc. (Malaika) operates an early learning center providing a high quality learning experience for children ages six weeks through eight years for residents of the City of Milwaukee, Wisconsin. Childcare and early education services are paid by private pay families or from participants who are eligible in the State of Wisconsin Department of Workforce Development W-2 program or the Milwaukee Parental School Choice Program.

NOTE 2 - Summary of significant accounting policies

Basis of accounting: The financial statements of Malaika have been prepared on the accrual basis of accounting, and, accordingly, reflect all significant receivables, payables, and other liabilities.

Basis of presentation: In accordance with generally accepted accounting principles, Malaika reports information regarding its financial position and activities according to the following three classes of net assets:

Unrestricted net assets - net assets that are neither temporarily nor permanently restricted by donor-imposed stipulations.

Temporarily restricted net assets - net assets that result from contributions whose use by Malaika is limited by donor-imposed stipulations that either expire by passage of time or can be fulfilled and removed by actions of Malaika pursuant to those stipulations.

Permanently restricted net assets - net assets resulting from contributions whose use by Malaika is limited by donor-imposed stipulations that neither expire by passage of time nor can be fulfilled and removed by actions of Malaika.

Use of 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 revenues and expenses. Actual results could differ from those estimates.

Property and equipment: Acquisitions and improvements of property and equipment in excess of \$1,000 are capitalized while small expenditures and expenditures for repairs and maintenance that do not materially prolong the useful lives of assets are expensed. Purchased property and equipment is carried at cost. Donated property and equipment is carried at the approximate fair value at the date of donation. Depreciation expense was computed using the straight-line method over the estimated lives of the assets and was \$118,771 and \$119,120 during the years ended June 30, 2014 and 2013, respectively.

Deferred revenue: Income from event sponsorship is deferred and will be recognized over the periods to which the event relates.

MALAIKA EARLY LEARNING CENTER, INC.

NOTES TO FINANCIAL STATEMENTS
June 30, 2014 and 2013

NOTE 2 - Summary of significant accounting policies (continued)

Revenues and accounts receivable: Private pay students are expected to prepay for services. Malaika invoices the State of Wisconsin Department of Workforce Development every two weeks for students participating in Wisconsin's W-2 program. In addition, funding is received from the Wisconsin Department of Public Instruction Food and Nutrition Program. State Choice program payments represent revenues received from the State of Wisconsin, in lieu of tuition revenues, for certain qualified students in four and five year old kindergarten who reside within Milwaukee. The Department of Public Instruction pays participating schools on a scheduled installment basis four times per year. Malaika relies on funding from the State of Wisconsin for the majority of its students.

All receivables are unsecured and are primarily due from the State of Wisconsin. Malaika considers these receivables to be fully collectible and no allowance for uncollectible receivables has been established. If amounts become uncollectible, they will be charged to operations when that determination is made.

Contribution recognition: Contributions are recognized as revenue when they are received or unconditionally promised. Contributions that are restricted by the donor are reported as increases in unrestricted net assets if the restrictions expire (that is, when a stipulated time restriction ends or purpose restriction is accomplished) in the reporting period in which the revenue is recognized. All other donor-restricted contributions are reported as increases in temporarily or permanently restricted net assets, depending on the nature of the restrictions. When a restriction expires, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets released from restrictions.

Donated services are recognized as contributions if the services (a) create or enhance non-financial assets or (b) require specialized skills, are performed by people with those skills and would otherwise be purchased by Malaika. During the years ended June 30, 2014 and 2013, no volunteer program services were donated to Malaika.

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

Fair value measurements: Based on Malaika's estimates, the carrying amounts of cash, accounts receivable, prepaid expenses, accounts payable and accrued expenses approximated fair value as of June 30, 2014 and 2013.

Subsequent events: Malaika has evaluated events and transactions for potential recognition or disclosure in the financial statements through December 30, 2014, the date on which the financial statements were available to be issued. See comment on renewal of bank line of credit in Note 3 below.

MALAIKA EARLY LEARNING CENTER, INC.

NOTES TO FINANCIAL STATEMENTS

June 30, 2014 and 2013

Note 3 - Bank line of credit

Malaika had available a bank line of credit from North Milwaukee State Bank which provided funds to be used for working capital purposes. The borrowing limit was \$100,000 and the borrowed amounts outstanding were \$20,000 and \$0 as of June 30, 2014 and 2013, respectively. Interest was payable monthly at the prime rate of interest plus 1.00% which was 5.00% at June 30, 2014 and 2013. The agreement matured on September 19, 2014 and was not renewed. The terms of the line of credit remained in effect under the prior agreement and was paid off in full and terminated on December 19, 2014.

Note 4 - Long-term debt

On June 30, 2013, Malaika executed a promissory note in the amount of \$247,000 from the Dennis J. and Kellie J. Mueller Revocable Trust. The note payable is due in full at maturity, with interest payments to be paid on the tenth (10th) day of each calendar quarter beginning on October 10, 2013. The interest shall accrue on the unpaid principal balance at an annual rate of 4% compounded quarterly. Maturity date of the note is July 1, 2016 and is secured by a secured position in all assets of Malaika including building, furniture, fixture and vehicles subject to prior security interests of North Milwaukee State Bank. Interest expense for the fiscal years ended June 30, 2014 and 2013, were \$9,880 and \$0, respectively.

Note 5 – Temporarily restricted net assets

Temporarily restricted net assets at June 30, 2014 and 2013 are available for the following purposes:

	<u>2014</u>	<u>2013</u>
Curriculum implementation	<u>\$ -</u>	<u>\$ 10,000</u>
Temporarily restricted net assets	<u><u>\$ -</u></u>	<u><u>\$ 10,000</u></u>

Note 6 – Related parties

Malaika received a loan (disclosed above in Note 4) from the Dennis J. and Kellie J. Mueller Revocable Trust, whereas, Dennis J. Mueller is the president of the board of directors and Kellie J. Mueller is a board of directors member/advisor. This related-party transaction was consummated on terms equivalent to those that prevail in arm's-length transactions, approved by the board of directors and the related parties do not have a proprietary interest in Malaika.

MALAIKA EARLY LEARNING CENTER, INC.

NOTES TO FINANCIAL STATEMENTS
June 30, 2014 and 2013

Note 7 - Income tax status

Malaika is exempt from federal income tax under Section 501(c) (3) of the Internal Revenue Code. In addition, Malaika qualifies for the charitable contribution deduction under Section 170(b) (1) (A) and has been classified as an organization other than a private foundation under Section 509(a) (2). Malaika is also exempt from Wisconsin income taxes.

Accounting principles generally accepted in the United States of America require management to evaluate tax positions taken by Malaika and recognize a tax liability (or assets) if Malaika has taken an uncertain position that more likely than not would not be sustained upon examination by the IRS. Management has analyzed the tax positions taken by Malaika, and has concluded that as of June 30, 2014, there are no uncertain positions taken or expected to be taken that would require recognition of a liability (or asset) or disclosure in the financial statements. Malaika is subject to routine audits by taxing jurisdictions; however, there are currently no audits for any tax periods in progress. Management believes it is no longer subject to income tax examinations for years prior to 2010.