

NORTHERN CALIFORNIA CHILD DEVELOPMENT, INC.

REPORT ON EXAMINATION  
OF FINANCIAL STATEMENTS  
AND ADDITIONAL INFORMATION

YEAR ENDED AUGUST 31, 2016  
(With Comparative Totals for 2015)

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February 13, 2017

Governing Board  
**Northern California Child Development, Inc.**  
Red Bluff, California

**INDEPENDENT AUDITORS' REPORT**

***Report on the Financial Statements***

We have audited the accompanying financial statements of **Northern California Child Development, Inc.**, which comprise the statements of financial position as of August 31, 2016, and the related statement 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 audits. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. 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 consolidated 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 **Northern California Child Development, Inc.**, as of August 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.

### ***Other Matters***

Our audit was conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The accompanying schedule of expenditures of Federal and State awards, as required by Title 2 U.S. Code of Federal Regulations (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance) is presented for purposes of additional analysis and is not a required part of the consolidated financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated, in all material respects, in relation to the consolidated financial statements taken as a whole.

### ***Other Reporting Required by Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report dated February 13, 2017 on our consideration of **Northern California Child Development, Inc.**'s internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with the *Government Auditing Standards* in considering **Northern California Child Development, Inc.**'s internal control over financial reporting and compliance.

Governing Board  
**Northern California Child Development, Inc.**  
February 13, 2017

***Report on Summarized Comparative Information***

We have previously audited **Northern California Child Development, Inc.**'s August 31, 2015 financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated February 8, 2016. In our opinion, the summarized comparative information presented herein as of and for the year ended August 31, 2015 is consistent, in all material respects, with the audited financial statements from which it has been derived.

*Randolph Scott & Co.*

**Certified Public Accountants, Inc.**  
Novato, California

**NORTHERN CALIFORNIA CHILD DEVELOPMENT, INC.**

**STATEMENT OF FINANCIAL POSITION**

**AUGUST 31, 2016**

**(With Comparative Totals for 2015)**

<b><u>ASSETS</u></b>	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Total All Funds</u>	
			<u>2016</u>	<u>2015</u>
<b>CURRENT ASSETS</b>				
Cash and Cash Equivalents (Note A)	\$ 64,976	\$ -	\$ 64,976	\$ 149,953
Cash, Restricted (Note D)	5,722	-	5,722	9,595
Accounts Receivable	7,545	-	7,545	67,897
Grants Receivable	-	-	-	15,008
Prepaid Expenses	73,447	-	73,447	34,656
<b>TOTAL CURRENT ASSETS</b>	<u>151,690</u>	<u>-</u>	<u>151,690</u>	<u>277,109</u>
PROPERTY AND EQUIPMENT (Note E)	-	354,509	354,509	473,280
DEPOSITS	<u>27,116</u>	<u>-</u>	<u>27,116</u>	<u>8,300</u>
<b>TOTAL ASSETS</b>	<u>\$ 178,806</u>	<u>\$ 354,509</u>	<u>\$ 533,315</u>	<u>\$ 758,689</u>
 <b><u>LIABILITIES &amp; NET ASSETS</u></b>				
<b>CURRENT LIABILITIES</b>				
Accounts Payable and Accrued Expenses	\$ 200,057	\$ -	\$ 200,057	\$ 221,941
CDE Reserve (Note F)	6,344	-	6,344	11,460
Deferred Revenue	10,108	-	10,108	17,138
<b>TOTAL CURRENT LIABILITIES</b>	<u>216,509</u>	<u>-</u>	<u>216,509</u>	<u>250,539</u>
DEPOSITS	<u>8,300</u>	<u>-</u>	<u>8,300</u>	<u>8,300</u>
<b>TOTAL LIABILITIES</b>	<u>224,809</u>	<u>-</u>	<u>224,809</u>	<u>258,839</u>
COMMITMENTS AND CONTINGENCY (Note H)	-	-	-	-
<b>NET ASSETS</b>				
Unrestricted	(46,003)	-	(46,003)	26,570
Temporarily Restricted:				
Property & Equipment (Note B)	-	354,509	354,509	473,280
	<u>(46,003)</u>	<u>354,509</u>	<u>308,506</u>	<u>499,850</u>
<b>TOTAL LIABILITIES AND NET ASSETS</b>	<u>\$ 178,806</u>	<u>\$ 354,509</u>	<u>\$ 533,315</u>	<u>\$ 758,689</u>

See Notes To Financial Statements.

**NORTHERN CALIFORNIA CHILD DEVELOPMENT, INC.**

**STATEMENT OF ACTIVITIES**

**YEAR ENDED AUGUST 31, 2016**

**(With Comparative Totals for 2015)**

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Total All Funds</u>	
			<u>2016</u>	<u>2015</u>
<b>REVENUES, GAINS, AND OTHER SUPPORT:</b>				
Grant Revenue	\$ 3,912,604	\$ -	\$ 3,912,604	\$ 3,910,003
Contract Revenue	509,106	-	509,106	430,735
Interest Income	71	-	71	93
In-Kind (Note A)	1,404,307	-	1,404,307	1,414,263
Other	62,685	-	62,685	49,909
Net Assets Released From Restrictions (Note C):				
Satisfaction of Program Restrictions or				
Other Expiration of Time Restrictions	-	-	-	-
 Total Revenues, Gains, and Other Support	 5,888,773	 -	 5,888,773	 5,805,003
 <b>EXPENSES AND LOSSES:</b>				
Head Start / Early Head Start	5,316,911	-	5,316,911	5,305,067
Child and Adult Care Food Program	157,045	-	157,045	155,018
General Child Care	431,945	-	431,945	269,934
Other Programs	51,213	-	51,213	59,530
General Operating	4,232	-	4,232	541
 Total Expenses and Losses	 5,961,346	 -	 5,961,346	 5,790,090
 <b>CHANGE IN NET ASSETS</b>	 <u>(72,573)</u>	 <u>-</u>	 <u>(72,573)</u>	 <u>14,913</u>
 <b>CHANGES TO NET ASSETS:</b>				
Transfer	-	-	-	-
Gain / (Loss) on Disposal of Equipment (Note A)	-	(1,010)	(1,010)	-
Depreciation of Equipment (Note A)	-	(117,761)	(117,761)	(175,005)
	-	(118,771)	(118,771)	(175,005)
 NET ASSETS, Beginning of the Year	 <u>26,570</u>	 <u>473,280</u>	 <u>499,850</u>	 <u>659,942</u>
 NET ASSETS, End of Year	 <u>\$ (46,003)</u>	 <u>\$ 354,509</u>	 <u>\$ 308,506</u>	 <u>\$ 499,850</u>

See Notes To Financial Statements.

**NORTHERN CALIFORNIA CHILD DEVELOPMENT, INC.**

**STATEMENT OF FUNCTIONAL EXPENSES**

**YEAR ENDED AUGUST 31, 2016**

**(With Comparative Totals for 2015)**

EXPENSES	Program Services				Unrestricted	Total All Funds	
	Head Start & Early Head Start	CACFP	CDE Child Care	Other Programs	General Operating	2016	2015
	Salaries	\$ 2,330,241	\$ 20,475	\$ 219,833	\$ 18,837	\$ 2,648	\$ 2,592,034
Employee Benefits & Taxes	797,225	6,952	80,490	2,323	-	886,990	833,556
Food	7,249	92,208	-	-	-	99,457	96,582
Travel	22,111	-	42	-	-	22,153	27,951
Rent (Note H)	202,512	-	19,256	3,291	-	225,059	221,945
Utilities	51,465	-	8,449	179	-	60,093	55,533
Telephone	50,018	-	45,896	136	-	96,050	8,925
Postage & Printing	993	-	131	911	-	2,035	1,787
Contracted Services	132,256	16,990	18,252	23,382	-	190,880	162,023
In-Kind (Note A)	1,404,307	-	-	-	-	1,404,307	1,414,263
Training	21,182	-	4,421	-	-	25,603	33,665
Medical & Dental	1,650	-	-	-	-	1,650	450
Insurance	46,348	-	5,797	32	-	52,177	49,162
Educational Supplies	26,287	-	5,465	-	1,584	33,336	41,248
Clerical & Other Supplies	46,199	20,420	6,318	236	-	73,173	73,881
Repairs & Maintenance	103,588	-	14,587	66	-	118,241	128,408
Vehicle & Transportation	30,081	-	361	-	-	30,442	42,988
Equipment	-	-	-	-	-	-	1,981
Parent Activity	29,632	-	169	-	-	29,801	33,853
Recruitment	2,394	-	12	-	-	2,406	4,754
Dues & Licenses	8,109	-	2,171	17	-	10,297	18,493
Interest	-	-	-	-	-	-	513
Other	3,064	-	295	1,803	-	5,162	8,328
Depreciation (Note E)	-	-	-	-	-	-	3,586
<b>TOTAL EXPENSES</b>	<b>\$ 5,316,911</b>	<b>\$ 157,045</b>	<b>\$ 431,945</b>	<b>\$ 51,213</b>	<b>\$ 4,232</b>	<b>\$ 5,961,346</b>	<b>\$ 5,790,090</b>

See Notes To Financial Statements.



**NORTHERN CALIFORNIA CHILD DEVELOPMENT, INC.**

**STATEMENT OF CASH FLOWS**

**YEAR ENDED AUGUST 31, 2016**

**(With Comparative Totals for 2015)**

	<u>Total All Funds</u>	
	<u>2016</u>	<u>2015</u>
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>		
Cash received from:		
Grant and Contract Income	\$ 4,484,924	\$ 4,424,840
Donations and Other revenue	62,685	49,909
Interest income	71	93
Cash paid to employees and suppliers	(4,636,530)	(4,493,184)
Interest expense	-	(513)
Net Cash Provided / (Used) by Operating Activities:	<u>(88,850)</u>	<u>(18,855)</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>		
Proceeds from Sale of fixed assets	-	8,650
Net Cash Provided / (Used) by Investing Activities	<u>-</u>	<u>8,650</u>
<b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>		
Cash paid by capital lease obligation - Less Interest of \$0 and \$513 respectively	-	(12,237)
Net Cash Provided / (Used) by Financing Activities	<u>-</u>	<u>(12,237)</u>
<b>NET INCREASE (DECREASE) IN CASH:</b>	(88,850)	(22,442)
Cash, Beginning of year	159,548	181,990
Cash, End of year	<u>\$ 70,698</u>	<u>\$ 159,548</u>
<b>RECONCILIATION OF CHANGE IN NET ASSETS TO NET CASH PROVIDED BY OPERATING ACTIVITIES:</b>		
Change in net assets	\$ (72,573)	\$ 14,913
Adjustments to reconcile net revenue to cash provided by operating activities:		
Depreciation (Note E)	117,761	178,591
Depreciation charged to equip. net assets (Note E)	(117,761)	(175,005)
(Gain) / Loss from Disposal	1,080	-
Disposal charged to equip. net assets	(1,080)	-
(Increase) Decrease in Assets:		
Grants and Accounts Receivable	75,360	75,406
Prepaid expenses	(38,791)	7,635
Deposits	(18,816)	-
Increase (Decrease) in Liabilities:		
Accounts payable and accrued expenses	(21,884)	(129,091)
Due to Funder	-	(1,496)
CDE Reserve	(5,116)	12
Deferred Revenue	(7,030)	10,180
Net Cash Provided / (Used) by Operating Activities:	<u>\$ (88,850)</u>	<u>\$ (18,855)</u>
<b>Supplemental Data:</b>		
In-Kind Goods and Services Received in Lieu of Cash	<u>\$ 1,404,307</u>	<u>\$ 1,414,263</u>
Interest Paid	<u>\$ -</u>	<u>\$ 513</u>

See Notes To Financial Statements.

**NORTHERN CALIFORNIA CHILD DEVELOPMENT, INC.**

**NOTES TO FINANCIAL STATEMENTS**

**YEAR ENDED AUGUST 31, 2016**  
**(With Comparative Totals for 2015)**

**NOTE A - GENERAL AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

**General**

**Northern California Child Development, Inc.**, (the Organization) is a nonprofit corporation organized in 1966 under the laws of the State of California. The primary purpose of the Organization is to develop and maintain a series of child development programs and sponsor various activities designed to encourage parent participation in the functions of the Organization. In order to accomplish this purpose, the Organization operates the following programs under various Federal and State grants; Head Start and Early Head Start Program, Child and Adult Care Food Program and the State Child Care Program.

The property of the Organization is dedicated to charitable purposes and no part of the net earnings or assets of the Organization shall inure to the benefit of any director, officer, or member of the Organization, or benefit of any private individual.

**Major Program**

Head Start Program - Head Start is a federally funded program from the U.S. Department of Health and Human Services, established under Title V of the Economic Opportunity Act of 1964 to provide comprehensive developmental services for the children of low income families. These services include physical, dental and mental health, nutrition, education, social development, and parent involvement and social services for the parents.

**Accrual Basis**

The accounting records of the Organization are maintained on the accrual basis in accordance with accounting principles generally accepted in the United States of America.

**Concentrations of Credit Risk**

Financial instruments that potentially subject the Organization to concentrations of credit risk consist principally of uninsured cash balances. The Organization places its cash deposits with high-credit quality financial institutions. At times, balances in the Organization's cash accounts may exceed the Federal Deposit Insurance Corporation (FDIC) limit of \$250,000. At August 31, 2016, there was no uninsured balance above the FDIC limit.

**Concentration of Revenue Sources**

During the year ended August 31, 2016, the Organization had two major revenue funding sources that accounted for approximately 98% of the total revenue. The U.S. Department of Health and Human Services accounted for approximately 87%, while the California Department of Education accounted for approximately 11%.

**NORTHERN CALIFORNIA CHILD DEVELOPMENT, INC.**

**NOTES TO FINANCIAL STATEMENTS**

**YEAR ENDED AUGUST 31, 2016**

**(With Comparative Totals for 2015)**

**NOTE A - GENERAL AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES –  
(Continued)**

**Fair Values of Financial Instruments**

The following methods and assumptions were used to estimate the fair value of financial instruments:

*Cash and cash equivalents:* The carrying amount reported in the Statement of Financial Position for cash and cash equivalents approximates its fair value.

*Grants receivable and deferred revenue:* The carrying amounts of grants receivable and deferred revenue in the Statement of Financial Position approximates fair value.

**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, liabilities, net assets, and revenues and expenses for the reporting period. Actual results could differ from those estimates.

**Cash and Cash Equivalents**

Cash is defined as cash in demand deposit accounts as well as cash on hand. Cash equivalents are short term, highly liquid investments that are readily convertible to known amounts of cash and investments so near their maturity that the risk of changes in value due to changes in interest rates is negligible. These are generally investments with maturity dates within three months of their acquisition date. Not included as cash equivalents are funds restricted as to their use, regardless of liquidity or the maturity dates of investments.

**Property and Equipment**

As further discussed in Note E, property and equipment are stated at cost. Depreciation is computed on the straight-line method over the estimated useful lives of the respective assets. Property and equipment purchased in connection with the restricted funds of the U.S. Department of Health and Human Services are expensed during the grant period. Assets purchased with grantor funds, which are expensed in the period acquired are recorded in the accompanying balance sheet as an asset, with a corresponding entry to net assets.

Depreciation is shown as a reduction to the restricted fund balance. Retirements are reflected as decreases to fixed asset accounts, with a corresponding reduction in the fund balance. In accordance with funding terms and condition, title to equipment and furnishings purchased with restricted funds are retained by the grantor.

**NORTHERN CALIFORNIA CHILD DEVELOPMENT, INC.**

**NOTES TO FINANCIAL STATEMENTS**

**YEAR ENDED AUGUST 31, 2016**

**(With Comparative Totals for 2015)**

**NOTE A - GENERAL AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES –  
(Continued)**

Property and Equipment – (Continued)

Maintenance and repairs are charged to the expense as incurred. Major furniture, equipment and betterments are capitalized and depreciated over their respective useful lives. The Organization capitalizes all asset purchases of \$5,000 or more and with a useful life of greater than one year, except where a grantor may impose a different threshold.

Vacation Benefits

Vacation time off with pay is available to eligible employees. As further described below, the amount of paid vacation time employees receive each year increases with the length of their employment. 90 days after the official hire date (30 days for management); vacation days will accrue each pay period. Total accrued vacation benefits at August 31, 2016 were \$22,660.

Regular full time, full-year employees accrue vacation according to the following schedule:

<u>Years Employed</u>	<u>Full-Time Accrual Rate</u>
1-4 years	3.50 hours per pay period
5-9 years	5.00 hours per pay period
10+ years	6.50 hours per pay period

Part time employees will accrue a percentage of the full time accrual rate, based on the percentage of time they are regularly scheduled to work, rounded up to the nearest ¼ hour.

<u>Years Employed</u>	<u>Part-Time Accrual Rate</u>
1-4 years	1.75 hours per pay period
5-9 years	2.50 hours per pay period
10+ years	3.25 hours per pay period

Sick Leave

Sick leave accumulates for employees are a rate that varies based upon years of service. Sick leave benefits are not accrued or vested and will not be paid out to employees upon termination of employment.

Revenue Recognition

Contributions and unconditional grants are recognized as support and revenues when they are received or unconditionally pledged. These contributions and gifts are shown as restricted support and revenues if they are subject to time or donor restrictions. Temporarily restricted net assets are reclassified to unrestricted net assets and reported in the consolidated statement of activities as net assets released from restrictions when a stipulated time restriction ends, a purpose restriction is accomplished, or both.

**NORTHERN CALIFORNIA CHILD DEVELOPMENT, INC.**

**NOTES TO FINANCIAL STATEMENTS**

**YEAR ENDED AUGUST 31, 2016**

**(With Comparative Totals for 2015)**

**NOTE A - GENERAL AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES –  
(Continued)**

Revenue Recognition – (Continued)

However, temporarily restricted contributions and grants are reported as unrestricted support and revenues if the restriction is met in the same year that the gift is received.

Conditional contributions are not recorded as support and revenues until the conditions are met. Payments classified as exchange transactions (reciprocal transfers between two entities in which goods and services of equal value is exchanged) are not recorded as other support and revenue until allowable expenditures are incurred.

Allocation of Expenses

The Organization follows the simplified allocation method for shared (indirect cost) as described in OMB Uniform Guidance: *Cost Principles, Audit, and Administrative Requirements for Federal Awards*. The Cost Allocation plan is reviewed annually and approved by the Board of Directors as part of the Organization's Fiscal Policies and Procedures. The Cost Allocation plan is reviewed by the Organization's auditors for compliance with applicable laws and regulations. The written cost allocation plan is on file in the Organization's main accounting office.

The Organization's costs are classified as either Direct or Indirect. Direct costs are those that can be identified with a particular final cost objective, i.e. an award, project, service or other direct program activity of the Organization.

The organization applies following methods for allocating costs:

*Direct Costs.* Costs identified 100 percent to a specific program are charged directly to that program.

*Shared Direct Costs.* Costs identified to specific multiple programs or activities are shared between the programs benefitting.

- Payroll costs are allocated using individual time sheets that report the actual time spent by employees in each program each day.
- Occupancy costs are allocated using the square footage of building space occupied by each program.
- Supply costs are allocated per full-time equivalent employees.

*Indirect Costs.* Costs that either benefit more than one award or that are necessary for the overall operation of the organization. Indirect costs are allocated based on direct salaries charged to each function.

**NORTHERN CALIFORNIA CHILD DEVELOPMENT, INC.**

**NOTES TO FINANCIAL STATEMENTS**

**YEAR ENDED AUGUST 31, 2016**

**(With Comparative Totals for 2015)**

**NOTE A - GENERAL AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES –  
(Continued)**

**Donated Goods and Services**

Donated materials and services (In-Kind) are reflected as contributions in the accompanying statements at their fair market value. Such services would have been purchased if not provided by donation or required specialized skills and are provided by individuals possessing such specialized skills. The types of in-kind donated to the Organization include volunteer services, mileage, and supplies. The total in-kind contributions for the year ended August 31, 2016 were \$1,404,307.

**Income Taxes**

The Organization is exempt from Federal and State income tax under Section 501(c)(3) of the Internal Revenue Code, and Section 23701(d) of the State of California Revenue and Taxation Code.

Generally accepted accounting principles provide accounting and disclose guidance about positions taken by an organization in its tax returns that might be uncertain. Management has considered its tax positions and believes that all of the positions taken by the Organization in its federal and state exempt organization tax returns are more likely than not to be sustained upon examination. The Organization's returns are subject to examination by federal and state taxing authorities, generally for three and four years, respectively, after they are filed.

**Summarized Financial Information For 2015**

The financial statements include certain prior-year summarized comparative information in total but not by net asset class. Such information does not include sufficient detail to constitute a presentation in conformity with generally accepted accounting principles. Accordingly, such information should be read in conjunction with the organization's financial statements for the year ended August 31, 2015, from which the summarized information was derived.

**NOTE B - TEMPORARILY RESTRICTED NET ASSETS**

Temporarily restricted net assets are part of the net assets of the Organization resulting from contributions and other inflows of assets whose use by the Organization is limited by donor imposed stipulations that either expire by passage of time or can be fulfilled and removed by actions of the Organization pursuant to those stipulations.

At August 31, 2016, temporarily restricted net assets consisted of the following:

Restricted Property and Equipment	\$ <u>354,509</u>
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**NORTHERN CALIFORNIA CHILD DEVELOPMENT, INC.**

**NOTES TO FINANCIAL STATEMENTS**

**YEAR ENDED AUGUST 31, 2016**  
**(With Comparative Totals for 2015)**

**NOTE C - NET ASSETS RELEASED FROM DONOR RESTRICTIONS**

Net assets are released from donor restrictions by incurring expenses satisfying the restricted purposes or by occurrence of other events specified by donors. For the year ended August 31, 2016, there were no net assets released from donor restrictions.

**NOTE D – RESTRICTED CASH**

At August 31, 2016, the balance of \$5,722 in cash was restricted for use by the Organization's fiscal sponsor for "Give Kids a Smile" day. These are not funds of the Organization and as such, a corresponding liability has been recorded in the statement of financial position.

**NOTE E - PROPERTY AND EQUIPMENT**

At August 31, 2016 property and equipment consisted of the following:

	<u>Cost</u>	<u>Accum. Depreciation</u>	<u>Net Book Value</u>
Vehicles	\$ 749,098	\$ 732,634	\$ 16,464
Leasehold Improvements	911,155	653,877	257,278
Building and Improvements	281,421	221,948	59,473
Furniture and Equipment	247,886	226,592	21,294
	<u>\$ 2,189,560</u>	<u>\$ 1,835,051</u>	<u>\$ 354,509</u>

Total depreciation expense for the year ended August 31, 2016 was \$117,761 of which \$117,761 decreased the equipment net assets.

**NOTE F – CDE RESERVE**

Child development contractors with the California Department of Education (CDE) are allowed, with prior CDE approval, to maintain a reserve account from earned but unexpended child development contract funds for three types of programs: Center Based, Resource and Referral, and Alternative Payment. Transfers from a reserve account are considered restricted income for child development programs, but may be applied to any of the contracts that are eligible to contribute to that particular program type.

The Organization maintains one reserve accounts for Center Based, and funds are deposited into an interest bearing account. At August 31, 2016 the reserve account balance was \$6,344.

**NORTHERN CALIFORNIA CHILD DEVELOPMENT, INC.**

**NOTES TO FINANCIAL STATEMENTS**

**YEAR ENDED AUGUST 31, 2016**

**(With Comparative Totals for 2015)**

**NOTE G – EMPLOYEE BENEFIT PLANS**

Retirement Plan

The Organization maintains a defined contributory retirement plan available for its employees which allows participants to make tax deferred investment contributions. The plan qualifies under the provisions of Section 401 (a) and 403 (a) of the Internal Revenue Code of 1954, as amended. The Organization will contribute a percentage of an employee's gross salary to a specified and approved 401K plan. Total employer's cash contributions made by the Organization to the Plan for the year ended August 31, 2016 were \$70,474.

Cafeteria Plan

The Organization maintains a non-discriminatory Internal Revenue Code Section 125 Cafeteria Plan for all employees. Under the plan, an employee may pay for either childcare assistance or un-reimbursed medical expenses. These supplemental payments are pre-tax dollars and not subject to employment or income taxes.

**NOTE H - COMMITMENTS AND CONTINGENCYS**

Commitments

The Organization conducts administrative and program operations at various leased facilities. Future minimum payments under non-cancelable operating leases are as follows:

<u>Year Ending August 31,</u>	<u>Buildings</u>
2017	85,680
2018	87,840
2019	90,000
2020	92,160
2021	94,320
Thereafter	31,680
	<u>\$ 481,680</u>

Total rent expense for the year ended August 31, 2016 was \$225,059.

Contingency

Grant awards require the fulfillment of certain conditions as set forth in the instruments of the grant. Failure to fulfill the conditions could result in the return of the funds to the grantors. The Organization deems this contingency remote since by accepting the grants and their terms it has accommodated the objectives of the organization to the provisions of the grants. The Organization's management is of the opinion that the organization has complied with the terms of all grants.



**NORTHERN CALIFORNIA CHILD DEVELOPMENT, INC.**

**NOTES TO FINANCIAL STATEMENTS**

**YEAR ENDED AUGUST 31, 2016**  
**(With Comparative Totals for 2015)**

**NOTE I – SUBSEQUENT EVENTS:**

The Organization has evaluated their financial position and activities from the August 31, 2016 year end through this report dated February 13, 2017 which is also the date that the financial statements were available to be issued. No material subsequent event items that required recognition or disclosure were identified.

ADDITIONAL INFORMATION

**NORTHERN CALIFORNIA CHILD DEVELOPMENT, INC.**  
**SCHEDULE OF EXPENDITURES OF FEDERAL AND STATE AWARDS**  
**YEAR ENDED AUGUST 31, 2016**

Grantor / Pass-Through Grantor / or Program Title	Federal CFDA Number	Entity Identifying Number	Grant Award Amount			Expenditures/Earnings		
			Federal	State	Total	Federal	State	Total
<b><u>U.S. Department of Health &amp; Human Services:</u></b>								
Head Start	93.600	09CH9128/03	\$ 3,912,604	\$ -	\$ 3,912,604	\$ 3,912,604	\$ -	\$ 3,912,604
<u>Pass-Through Program From:</u>								
<u>California Department of Education-</u>								
State Preschool	93.575/93.596	CSPP-6609	41,658	488,659	530,317	1,706	20,006	21,712
State Preschool	93.575/93.596	CSPP-5592	48,831	413,859	462,690	34,216	284,315	318,531
<i>Total U. S. Department of Health &amp; Human Services</i>			<u>\$ 4,003,093</u>	<u>\$ 902,518</u>	<u>\$ 4,905,611</u>	<u>\$ 3,948,526</u>	<u>\$ 304,321</u>	<u>\$ 4,252,847</u>
 <b><u>U.S. Department of Agriculture:</u></b>								
<u>Pass-Through Program From:</u>								
<u>California Department of Education-</u>								
Child Care Food Program- Center Based	10.558	01-2286-2A	\$ 157,045	\$ -	\$ 157,045	\$ 157,045	\$ -	\$ 157,045
<i>Total U. S. Department of Agriculture</i>			<u>\$ 157,045</u>	<u>\$ -</u>	<u>\$ 157,045</u>	<u>\$ 157,045</u>	<u>\$ -</u>	<u>\$ 157,045</u>
 <b>Total Federal and State Awards</b>			<u>\$ 4,160,138</u>	<u>\$ 902,518</u>	<u>\$ 5,062,656</u>	<u>\$ 4,105,571</u>	<u>\$ 304,321</u>	<u>\$ 4,409,892</u>

**Note 1. Basis of Presentation:**

The accompanying schedule of expenditures of federal and state awards includes the federal and state grant activity of **Northern California Child Development, Inc.**, and is presented on the accrual basis of accounting. The Federal information in this schedule is presented in accordance with the requirements of Title 2 U.S. Code of Federal Regulations (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards (Uniform Guidance)*. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the basic financial statements.

**Note 2. De Minimis Indirect Cost Rate:**

The Agency did not use the 10% de minimis indirect cost rate within their financial statements.

**NORTHERN CALIFORNIA CHILD DEVELOPMENT, INC.**  
**HEAD START GRANT AWARD NO. 09CH9128-03**  
**SCHEDULE OF HEAD START REVENUE AND EXPENDITURES**  
**BUDGET AND ACTUAL - GRANT BASIS**  
**YEAR ENDED AUGUST 31, 2016**

	<u>Approved Budget</u>	<u>Actual</u>	<u>Variance</u>
<b><u>REVENUES</u></b>			
Head Start Grant Revenue	\$ 3,912,604	\$ 3,912,604	\$ -
In-Kind	978,150	1,404,307	426,157
<b>TOTAL REVENUES</b>	<b><u>4,890,754</u></b>	<b><u>5,316,911</u></b>	<b><u>426,157</u></b>
<b><u>EXPENSES</u></b>			
<b>Basic</b>			
Salaries	2,302,901	2,330,241	(27,340)
Fringe Benefits	751,009	797,225	(46,216)
Travel	-	-	-
Equipment	5,000	-	5,000
Supplies	98,702	72,486	26,216
Contractual	138,361	125,590	12,771
Facilities / Construction	432,728	453,135	(20,407)
Other	127,163	77,187	49,976
	<u>3,855,864</u>	<u>3,855,864</u>	<u>-</u>
<b>Training &amp; Technical Assistance</b>			
Personnel	-	-	-
Fringe Benefits	-	-	-
Travel	26,654	22,111	4,543
Equipment	-	-	-
Supplies	-	-	-
Contractual	-	-	-
Facilities / Construction	-	-	-
Other	30,086	34,629	(4,543)
	<u>56,740</u>	<u>56,740</u>	<u>-</u>
<b>TOTAL EXPENSES</b>	<b><u>3,912,604</u></b>	<b><u>3,912,604</u></b>	<b><u>-</u></b>
In-Kind Expense	<u>978,150</u>	<u>1,404,307</u>	<u>(426,157)</u>
<b>TOTAL FEDERAL EXPENSES</b>	<b><u>4,890,754</u></b>	<b><u>5,316,911</u></b>	<b><u>(426,157)</u></b>
Excess revenue over expenditures	\$ <u>-</u>	\$ <u>-</u>	\$ <u>-</u>

**Report on Internal Control over Financial Reporting and on  
Compliance and Other Matters Based on an Audit of  
Financial Statements Performed in Accordance  
With Government Auditing Standards**

February 13, 2017

Board of Directors  
**Northern California Child Development, Inc.**  
Red Bluff, California

**Independent Auditor's Report**

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the financial statements of **Northern California Child Development, Inc.**, which comprise the statement of financial position as of August 31, 2016, and the related statements of activities and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated February 13, 2017.

**Internal Control Over Financial Reporting**

In planning and performing our audit of the financial statements, we considered **Northern California Child Development, Inc.**'s internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of **Northern California Child Development, Inc.**'s internal control. Accordingly, we do not express an opinion on the effectiveness of **Northern California Child Development, Inc.**'s internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

**Report on Internal Control over Financial Reporting and on  
Compliance and Other Matters Based on an Audit of  
Financial Statements Performed in Accordance  
With *Government Auditing Standards***

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

**Compliance and Other Matters**

As part of obtaining reasonable assurance about whether **Northern California Child Development, Inc.**'s financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

**Purpose of this Report**

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.



**Certified Public Accountants, Inc.**  
Novato, California

**Report on Compliance for Each Major Federal Program; and  
Report on Internal Control Over Compliance  
Required by Uniform Guidance**

February 13, 2017

Board of Directors  
**Northern California Child Development, Inc.**  
Red Bluff, California

**Independent Auditor's Report**

**Report on Compliance for Each Major Federal Program**

We have audited **Northern California Child Development, Inc.**'s compliance with the types of compliance requirements described in the Office of Management and Budget (OMB) *Compliance Supplement* that could have a direct and material effect on each of **Northern California Child Development, Inc.**'s major federal programs for the year ended August 31, 2016. **Northern California Child Development, Inc.**'s major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

**Management's Responsibility**

Management is responsible for compliance with the requirements of laws, regulations, contracts, and grants applicable to its federal programs.

**Auditor's Responsibility**

Our responsibility is to express an opinion on compliance for each of **Northern California Child Development, Inc.**'s major federal programs based on our audit of the type of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the audit requirements of Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about **Northern California Child Development, Inc.**'s compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

**Report on Compliance for Each Major Federal Program; and  
Report on Internal Control Over Compliance  
Required by Uniform Guidance**

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination of **Northern California Child Development, Inc.**'s compliance.

*Opinion on Each Major Federal Program*

In our opinion, **Northern California Child Development, Inc.** complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended August 31, 2016.

**Report on Internal Control Over Compliance**

The management of **Northern California Child Development, Inc.** is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit, we considered **Northern California Child Development, Inc.**'s internal control over compliance with the types of requirements that could have a direct and material effect on a each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of **Northern California Child Development, Inc.**'s internal control over compliance.

*A deficiency in internal control over compliance* exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct noncompliance with a type of compliance requirement of a federal program on a timely basis. *A material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material non compliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. *A significant deficiency in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of the internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.



**Report on Compliance for Each Major Federal Program; and  
Report on Internal Control Over Compliance  
Required by Uniform Guidance**

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

*Randolph Scott & Co.*

**Certified Public Accountants, Inc.**  
Novato, California

**NORTHERN CALIFORNIA CHILD DEVELOPMENT, INC.**  
**SCHEDULE OF FINDINGS AND QUESTIONED COSTS**  
**YEAR ENDED AUGUST 31, 2016**

**SECTION I: SUMMARY OF AUDIT RESULTS**

*Financial Statements*

Type of auditor's report issued: Unmodified

Internal control over financial reporting:

- \* Material weakness(es) identified? \_\_\_\_\_ yes \_\_\_X\_\_\_ no
- \* Significant deficiency(ies) identified? \_\_\_\_\_ yes \_\_\_X\_\_\_ none reported
- \* Noncompliance material to financial statements noted? \_\_\_\_\_ yes \_\_\_X\_\_\_ no

*Federal Awards*

Internal control over major programs:

- \* Material weakness(es) identified? \_\_\_\_\_ yes \_\_\_X\_\_\_ no
- \* Significant deficiency(ies) identified? \_\_\_\_\_ yes \_\_\_X\_\_\_ none reported

Type of auditor's report issued: Unmodified

Any audit findings disclosed that are required to be reported in accordance with the Uniform Guidance? \_\_\_\_\_ yes \_\_\_X\_\_\_ no

Identification of major programs:

Department of Health & Human Services:

Head Start / Early Head Start

CFDA Number: 93.600

Dollar threshold used to distinguish Type A programs from Type B programs was \$750,000.

Auditee qualified as low risk auditee? \_\_\_X\_\_\_ yes \_\_\_\_\_ no

NORTHERN CALIFORNIA CHILD DEVELOPMENT, INC.  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
YEAR ENDED AUGUST 31, 2016

SECTION II: FINANCIAL STATEMENTS FINDINGS

PRIOR YEAR AUDIT FINDINGS AND RECOMMENDATIONS

None.

SIGNIFICANT DEFICIENCIES - MATERIAL WEAKNESSES

None.

SIGNIFICANT DEFICIENCIES – NON-MATERIAL WEAKNESSES

None.

SECTION III: FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

PRIOR YEAR AUDIT FINDINGS AND RECOMMENDATIONS

None.

SIGNIFICANT DEFICIENCIES - MATERIAL WEAKNESSES

None.

SIGNIFICANT DEFICIENCIES – NON-MATERIAL WEAKNESSES

None.

QUESTIONED COSTS

None.