PENFIELD CHILDREN'S CENTER, INC.
AND AFFILIATES

Milwaukee, Wisconsin

CONSOLIDATED FINANCIAL STATEMENTS

Including Independent Auditors' Report

As of and for the Years Ended December 31, 2019 and 2018

PENFIELD CHILDREN'S CENTER, INC. AND AFFILIATES

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As of and for the Years Ended December 31, 2019 and 2018

INDEPENDENT AUDITORS' REPORT

Board of Directors
Penfield Children's Center, Inc. and Affiliates
Milwaukee, Wisconsin

Report on the Financial Statements

We have audited the accompanying consolidated financial statements of Penfield Children's Center, Inc. and Affiliates (the "Organization"), which comprise the consolidated statements of financial position as of December 31, 2019 and 2018, and the related consolidated statements of activities, cash flows and functional expenses for the years then ended, and the related notes to the consolidated financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated 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 consolidated 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 consolidated financial statements based on our audits. We conducted our audits 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 consolidated financial statements are free from 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 auditors' judgment, including the assessment of the risks of material misstatement of the consolidated 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 consolidated 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 consolidated 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 consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of the Organization as of December 31, 2019 and 2018, 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.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated July 8, 2020 on our consideration of the Organization's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely 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 effectiveness of the Organization's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Organization's internal control over financial reporting and compliance.

Baker Tilly Virchow Krause, LLP

Milwaukee, Wisconsin
July 8, 2020

PENFIELD CHILDREN'S CENTER, INC. AND AFFILIATES

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION
As of December 31, 2019 and 2018

ASSETS

	2019	2018
ASSETS		
Cash and cash equivalents	$ 3,304,225	$ 2,010,817
Investments	4,739,052	4,734,055
Accounts receivable	180,898	236,149
Grants receivable	400,256	444,033
Contributions and pledges receivable, net	2,297,374	3,832,940
Prepaid expenses	61,168	39,724
Property and equipment	4,533,954	4,207,803
TOTAL ASSETS	$ 15,516,927	$ 15,505,521

LIABILITIES AND NET ASSETS

	2019	2018
LIABILITIES		
Accounts payable and accrued expenses	$ 522,034	$ 618,153
Grant funds received in advance	86,735	100,436
Notes payable	366,335	-
Total Liabilities	975,104	718,589
NET ASSETS		
Without donor restrictions	9,562,178	9,091,261
With donor restrictions	4,979,645	5,695,671
Total Net Assets	14,541,823	14,786,932
TOTAL LIABILITIES AND NET ASSETS	$ 15,516,927	$ 15,505,521

See accompanying notes to consolidated financial statements.

PENFIELD CHILDREN'S CENTER, INC. AND AFFILIATES

CONSOLIDATED STATEMENTS OF ACTIVITIES
For the Years Ended December 31, 2019 and 2018

	2019			2018		
	Without Donor Restrictions	With Donor Restrictions	Total	Without Donor Restrictions	With Donor Restrictions	Total
Public Support and Revenues						
Milwaukee County Department of Human Services	$ 1,622,712	$ -	$ 1,622,712	$ 1,442,207	$ -	$ 1,442,207
U.S.D.A. Food Program	136,712	-	136,712	108,559	-	108,559
United Way of Greater Milwaukee, Inc.	122,228	434,265	556,493	102,438	510,961	613,399
Service fees and child care	2,377,050	-	2,377,050	2,506,641	-	2,506,641
Contributions and other grants	797,617	1,371,628	2,169,245	517,709	2,475,926	2,993,635
School grants	1,207,584	-	1,207,584	838,107	-	838,107
In-kind contributions	135,039	-	135,039	109,473	-	109,473
Fundraising events	445,605	-	445,605	823,675	-	823,675
Cost of direct benefit to donors	(37,800)	-	(37,800)	(36,598)	-	(36,598)
Investment return, net	879,227	39,552	918,779	(358,372)	(15,552)	(373,924)
Other income	172,337	-	172,337	69,568	-	69,568
Net assets released from restrictions	2,561,471	(2,561,471)	-	4,408,645	(4,408,645)	-
Total Public Support and Revenues	10,419,782	(716,026)	9,703,756	10,532,052	(1,437,310)	9,094,742
Expenses						
Program services	8,349,009	-	8,349,009	8,278,415	-	8,278,415
Management and general	1,184,541	-	1,184,541	1,277,771	-	1,277,771
Development and fundraising	415,315	-	415,315	336,688	-	336,688
Total Expenses	9,948,865	-	9,948,865	9,892,874	-	9,892,874
CHANGE IN NET ASSETS	470,917	(716,026)	(245,109)	639,178	(1,437,310)	(798,132)
NET ASSETS - Beginning of Year	9,091,261	5,695,671	14,786,932	8,452,083	7,132,981	15,585,064
NET ASSETS - END OF YEAR	$ 9,562,178	$ 4,979,645	$ 14,541,823	$ 9,091,261	$ 5,695,671	$ 14,786,932

See accompanying notes to consolidated financial statements.

PENFIELD CHILDREN'S CENTER, INC. AND AFFILIATES

CONSOLIDATED STATEMENTS OF CASH FLOWS
For the Years Ended December 31, 2019 and 2018

	2019	2018
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in Net Assets	$ (245,109)	$ (798,132)
Adjustments to reconcile change in net assets to net cash flows from operating activities		
Net realized and unrealized (gain) loss on investments	(774,039)	741,383
Depreciation and amortization expense	369,540	377,377
(Gain) loss on sale of property and equipment	(35,685)	23,923
Provision for doubtful accounts	32,260	86,606
Contributions with donor restrictions for capital campaign and endowment	(1,145,944)	(1,987,174)
Changes in assets and liabilities:		
Accounts receivable	55,251	(15,706)
Grants receivable	43,777	(269,383)
Contributions and pledges receivable	1,000,940	988,110
Prepaid expenses	(21,444)	18,033
Accounts payable and accrued expenses	(110,964)	89,485
Grant funds received in advance	(13,701)	39,992
Net Cash Flows from Operating Activities	(845,118)	(705,486)
CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds from sale of investments	2,161,730	976,273
Purchases of investments	(1,392,688)	(1,215,665)
Payments for purchase of property and equipment	(680,846)	(425,561)
Proceeds from sale of property and equipment	35,685	6,000
Net Cash Flows from Investing Activities	123,881	(658,953)
CASH FLOWS FROM FINANCING ACTIVITIES		
Cash received for capital campaign and endowment	1,648,310	3,524,858
Net (payments on) proceeds from notes payable	366,335	(1,350,000)
Net Cash Flows from Financing Activities	2,014,645	2,174,858
Net Change in Cash and Cash Equivalents	1,293,408	810,419
CASH AND CASH EQUIVALENTS - Beginning of Year	2,010,817	1,200,398
CASH AND CASH EQUIVALENTS - END OF YEAR	$ 3,304,225	$ 2,010,817

NONCASH INVESTING AND FINANCING ACTIVITIES		
Capital additions included in accounts payable	$ 14,845	$ -
Cash paid for interest	$ 360	$ 23,390
Cash paid for taxes	$ 20,456	$ -

See accompanying notes to consolidated financial statements.

PENFIELD CHILDREN'S CENTER, INC. AND AFFILIATES

CONSOLIDATED STATEMENT OF FUNCTIONAL EXPENSES
For the Year Ended December 31, 2019

	Birth to Three	Penfield Montessori Academy	Other Programs	Total Programs	Management and General	Development and Fundraising	Total Operating 2019
EXPENSES							
Salaries	$ 1,447,969	$ 1,313,867	$ 2,193,644	$ 4,955,480	$ 630,705	$ 317,870	$ 5,904,055
Payroll taxes and benefits	345,269	342,543	616,547	1,304,359	143,596	40,642	1,488,597
Total salaries and related expenses	1,793,238	1,656,410	2,810,191	6,259,839	774,301	358,512	7,392,652
Advertising	-	-	-	-	198,270	-	198,270
Client transportation	-	24,037	14,407	38,444	-	-	38,444
Computer equipment	-	45,730	20,496	66,226	228	-	66,454
Conferences and meetings	6,420	43,055	15,454	64,929	-	-	64,929
Depreciation and amortization	29,336	-	315,818	345,154	21,256	3,130	369,540
Dues and subscriptions	408	14,074	17,101	31,583	38,346	2,275	72,204
Employee transportation	39,809	28,457	44,531	112,797	4,481	1,403	118,681
Equipment and parking lot rental	2,505	-	11,497	14,002	-	-	14,002
Food service	398	97,907	63,301	161,606	6,197	1,009	168,812
Insurance	9,581	23,510	65,394	98,485	4,611	1,623	104,719
Maintenance and repairs	21,508	78,750	91,190	191,448	2,769	-	194,217
Other supplies and expense	4,970	92,813	196,716	294,499	21,418	1,123	317,040
Postage and office supplies	146	2,654	12,024	14,824	6,338	2,198	23,360
Printing and stationery	340	4,311	13,163	17,814	2,075	10,272	30,161
Professional services and consultant fees	30,571	165,745	249,532	445,848	98,579	-	544,427
Provision for bad debt	-	-	-	-	-	32,260	32,260
Telephone	20,240	10,785	21,644	52,669	5,672	1,510	59,851
Utilities	14,971	60,933	62,938	138,842	-	-	138,842
Cost of direct benefit to donors	-	-	-	-	-	37,800	37,800
Total	1,974,441	2,349,171	4,025,397	8,349,009	1,184,541	453,115	9,986,665
Less cost of direct benefit to donors	-	-	-	-	-	(37,800)	(37,800)
Total Expenses	$ 1,974,441	$ 2,349,171	$ 4,025,397	$ 8,349,009	$ 1,184,541	$ 415,315	$ 9,948,865

See accompanying notes to consolidated financial statements.

PENFIELD CHILDREN'S CENTER, INC. AND AFFILIATES

CONSOLIDATED STATEMENT OF FUNCTIONAL EXPENSES
For the Year Ended December 31, 2018

	Birth to Three	Penfield Montessori Academy	Other Programs	Total Programs	Management and General	Development and Fundraising	Total Operating 2018
EXPENSES							
Salaries	$ 1,606,873	$ 1,224,325	$ 2,065,375	$ 4,896,573	$ 661,694	$ 208,653	$ 5,766,920
Payroll taxes and benefits	432,537	325,439	549,399	1,307,375	122,413	54,065	1,483,853
Total salaries and related expenses	2,039,410	1,549,764	2,614,774	6,203,948	784,107	262,718	7,250,773
Advertising	-	-	-	-	190,090	-	190,090
Client transportation	49,456	73,016	2,576	125,048	-	-	125,048
Computer equipment	-	15,455	20,623	36,078	-	-	36,078
Conferences and meetings	5,054	50,395	14,368	69,817	6,049	359	76,225
Depreciation and amortization	54,700	-	298,068	352,768	20,958	3,651	377,377
Dues and subscriptions	1,469	18,217	43,060	62,746	42,834	767	106,347
Employee transportation	26,876	4,531	35,926	67,333	3,647	1,468	72,448
Equipment and parking lot rental	3,704	-	1,994	5,698	7,640	-	13,338
Food service	14,537	70,441	47,530	132,508	5,837	548	138,893
Insurance	14,882	22,053	20,007	56,942	35,178	1,617	93,737
Maintenance and repairs	25,005	92,827	82,013	199,845	5,184	-	205,029
Other supplies and expense	10,515	61,065	129,519	201,099	10,042	268	211,409
Postage and office supplies	-	1,619	11,328	12,947	6,774	310	20,031
Printing and stationery	-	-	18,612	18,612	5,865	3,714	28,191
Professional services and consultant fees	8,668	99,180	331,610	439,458	149,835	60,000	649,293
Provision for bad debt	-	2,969	83,637	86,606	-	-	86,606
Telephone	19,743	12,080	20,421	52,244	3,731	1,268	57,243
Utilities	25,062	70,549	59,107	154,718	-	-	154,718
Cost of direct benefit to donors	-	-	-	-	-	36,598	36,598
Total	2,299,081	2,144,161	3,835,173	8,278,415	1,277,771	373,286	9,929,472
Less cost of direct benefit to donors	-	-	-	-	-	(36,598)	(36,598)
Total Expenses	$ 2,299,081	$ 2,144,161	$ 3,835,173	$ 8,278,415	$ 1,277,771	$ 336,688	$ 9,892,874

See accompanying notes to consolidated financial statements.

NOTE 1 - Summary of Significant Accounting Policies

Basis of Statement Preparation

The consolidated financial statements include the accounts of Penfield Children's Center, Inc., Friends of Penfield Children's Center, Inc., VMMS Building Corp., Penfield Montessori Academy, Inc., PMA Building, LLC, and PCC Building, LLC (collectively, the "Organization"), after eliminating intercompany accounts and transactions. The consolidated financial statements have been prepared on the accrual basis of accounting. The significant accounting policies are described below to enhance the usefulness of the consolidated financial statements to the reader.

Nature of Activities

Penfield Children's Center, Inc. ("Penfield") is an exempt organization under section 501(c)(3) of the Internal Revenue Code. Its sole purpose is to help infants and young children with and without disabilities reach their full potential through education, therapy services and family programs. Annually, Penfield serves more than 1,700 children and their families. Penfield provides Birth-to-3 services, child care, family services, a special care nursery, behavior clinic, and outpatient therapy services.

Friends of Penfield Children's Center, Inc. is an exempt organization under section 501(c)(3) of the Internal Revenue Code. Its sole purpose is to provide support for Penfield and Penfield Montessori Academy, Inc., through an annual fundraising event as well as other charitable solicitations throughout the year.

VMMS Building Corp. is an exempt organization under section 501(c)(2) of the Internal Revenue Code. Its sole purpose is to provide physical space for Penfield and Friends of Penfield Children's Center, Inc. to carry out their missions.

Penfield Montessori Academy, Inc. (“PMA”) is an exempt organization under section 501(c)(3) of the Internal Revenue Code. PMA has a fiscal year end of June 30. PMA is a school for all abilities. It opened in September of 2016, with three classrooms for children ages three to five in a Montessori environment, with one additional classroom added for each subsequent school year. When fully enrolled, PMA will have classrooms for three-year old kindergarten through eighth grade.

PMA Building, LLC is a limited liability company with one sole member, Penfield. Its sole purpose is to provide physical space for PMA to carry out its mission.

PCC Building, LLC is a limited liability company with one sole member, Penfield. Its sole purpose is to provide physical space for Penfield to carry out its mission.

Cash and Cash Equivalents

For the purpose of the consolidated financial statements, the Organization considers all highly liquid debt instruments purchased with maturity of three months or less and any certificates of deposit that do not contain material early withdrawal penalties to be cash equivalents.

NOTE 1 - Summary of Significant Accounting Policies (continued)

Investments

Investments in equity securities with readily determinable fair values and all investments in debt securities are reported at fair value, with realized and unrealized gains and losses included in the consolidated statements of activities. Investment return is presented net of investment fees.

The Organization follows current accounting guidance, which clarifies how organizations are required to use a fair value measure for recognition and disclosure by establishing a common definition of fair value, creating a framework for measuring fair value and expanding disclosures about fair value measurements. Current accounting guidance establishes a three-tier fair value hierarchy, which prioritizes the inputs used in measuring fair value. These tiers include Level 1, defined as observable inputs such as quoted market prices in active markets; Level 2, defined as inputs other than quoted market prices in active markets that are either directly or indirectly observable; and Level 3, defined as unobservable inputs in which little or no market data exists, therefore requiring an entity to develop its own assumptions.

Accounts Receivable

In 2019, contracts with patients and their caregivers that are considered exchange transactions are recorded at the amount management expects to receive from the net transaction price. Balances are recorded net of contractual adjustments for Medicaid and other third-party payors under terms of third-party reimbursement agreements in effect. The Organization also reports accounts receivable net of any implied discounts to determine the net transaction price.

In 2018, the Organization reported accounts receivable net of an allowance for uncollectible accounts and recorded contractual allowances. The allowance for uncollectible accounts was adjusted periodically based upon a review of patient balances and the likelihood of payment based on historical experience as well as specific patient circumstances. As of December 31, 2018, the Organization’s combined allowance for uncollectible accounts and contractual allowances was $122,052.

Accounts receivable are uncollateralized patient obligations; most of whom are local residents and are stated at the amount management expects to collect from outstanding balances. The Organization follows up on past due amounts to reduce its exposure to potential uncollectible accounts.

Grants Receivable

Grants receivable represents the outstanding balance of government and other grants due to the Organization based upon costs incurred, services completed and terms identified in the contacts. Management determines the need for an allowance for doubtful accounts based on historical collection experience and a review of current grants receivable balances. Accounts written-off are charged against the allowance. No allowance for doubtful accounts is considered necessary as of December 31, 2019 and 2018.

NOTE 1 - Summary of Significant Accounting Policies (continued)

Contributions and Pledges Receivable

Unconditional promises to give (pledges) are recognized as revenue in the period the promise is received. Management considers all pledges fully collectible; accordingly, no allowance is considered necessary. Accounts written-off are charged against the allowance. Pledges are recorded as without donor restrictions or with donor restrictions, depending on the existence and/or nature of any donor restrictions. The Organization applies a discount rate on long-term pledges receivable, which is based on treasury yield rates at the date of the gift.

Property and Equipment

Expenditures for land, equipment, building, and improvements have been recorded at cost. Depreciation on the building and equipment is computed on the straight-line method over the estimated useful lives of the assets. Donations of land, building and equipment are recorded as contributions at their estimated fair value at the date of the donation. Such donations are reported as increases in net assets without donor restrictions unless the donor has restricted the donated asset for a specific purpose. Assets donated with explicit restrictions regarding their use and contributions of cash that must be used to acquire land, building and equipment are reported as contributions with donor restrictions. Absent donor stipulations regarding how long those donated assets must be maintained, the Organization reports expirations of donor restrictions when the donated or acquired assets are placed in service. The Organization reclassifies net assets with donor restrictions to net assets without donor restrictions at that time.

The Organization follows a policy whereby items having a cost of less than $2,500 are charged to operations in the year of purchase.

Impairment of Long-Lived Assets

The Organization reviews long-lived assets, including property and equipment and intangible assets, for impairment whenever events or changes in business circumstances indicate that the carrying amount of an asset may not be fully recoverable. An impairment loss would be recognized when the estimated future cash flows from the use of the asset are less than the carrying amount of that asset. To date, there have been no such losses.

Environmental Remediation Liability

The Organization purchased land in 2018 adjacent to its current building for future use. During 2018, site investigation activities were undertaken to determine if remedial action was required prior to further use of the land. These activities continued through 2019. A conditional grant of $68,500 was received to cover assessment, investigation, demolition and potential abatement costs. As of December 31, 2019 and 2018, $37,950 and $24,860, respectively, has been expended under the grant. As of the date of this report, no potential environmental remediation has been identified.

Advertising Expense

It is the policy of the Organization to expense advertising as it is incurred. Advertising for the years ended December 31, 2019 and 2018 was $198,270 and $190,090, respectively.

NOTE 1 - Summary of Significant Accounting Policies (continued)

Net Assets

The Organization presents its consolidated financial statements in accordance with current accounting guidance, under which the Organization is required to report information regarding its financial position and activities according to classes of net assets as follows:

Net Assets Without Donor Restrictions - Net assets that are not subject to donor-imposed stipulations or time restrictions. The Organization's Board of Directors has the ability to designate net assets without donor restrictions to be used by management for specific future projects or activities. These designations can be modified or removed by the Board of Directors at any time.

Net Assets With Donor Restrictions - Net assets subject to donor-imposed stipulations that expire by passage of time, can be fulfilled and removed by actions of the Organization pursuant to those stipulations, or that they be maintained permanently by the Organization.

Contributions and Grants

The Organization adopted Financial Accounting Standards Board's ("FASB") Accounting Standards Update ("ASU") No. 2018-08, *Not-for-Profit Entities (Topic 958): Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made* during the year ending December 31, 2019, using the modified prospective transition method. Unconditional contributions or grants are recognized when cash, securities, other assets, or promises to give are received. Conditional contributions or grants, that is, those with a measurable performance or other barrier, and a right of return, are not recognized until the conditions on which they depend have been met. Most of the Organization’s federal, state and other grants or contracts are conditioned upon certain performance requirements and the incurrence of allowable qualifying expenses. As of December 31, 2019 there was approximately $3,149,000 of conditional grant revenue, which is expected to be recognized in future years when the conditions are met.
During 2019, $86,735 had been received in advance and is included within grant funds received in advance on the statements of financial position. This amount will recognized in subsequent years when earned.

Contributions, including unconditional promises to give, are recorded in the period received. All contributions restricted for a specific purpose by a donor are recorded as contributions with donor restrictions. When a donor restriction is met or expires, net assets with donor restrictions are reclassified as net assets without donor restrictions and reported in the consolidated statements of activities as net assets released from restrictions. All grants with government agencies are reported as without donor restrictions when the Organization satisfies any conditions.

NOTE 1 - Summary of Significant Accounting Policies (continued)

Contracts with Customers

The Organization adopted ASU No. 2014-09, *Revenue from Contracts with Customers (Topic 606)*, and all related amendments during the year ending December 31, 2019, using the modified retrospective transition method. ASU No. 2014-09 supersedes the revenue recognition requirements in Topic 605, *Revenue Recognition,* and most industry specific guidance. The core principle under ASU No. 2014-09 is that revenues are recognized to depict the transfer of promised goods or services to customers in an amount that reflects the consideration at which the entity expects to be entitled in exchange for those goods or services. Additionally, ASU No. 2014-09 requires enhanced disclosures of revenue arrangements.

A portion of the Organization's revenues results from the sale of goods and services under contracts with customers. Revenue under contracts with customers is recognized when the customer obtains control of the good or service and is recognized to depict the transfer of promised goods or services in an amount that reflects the consideration to which the Organization expects to be entitled in exchange for those goods or services.

A performance obligation is a distinct good, service or a bundle of goods and services promised in a contract. The Organization identifies performance obligations at the inception of a contract and allocates the transaction price to individual performance obligations to appropriately depict the Organization's performance in transferring control of the promised goods or services to the customer. Contracts with customers do not include a significant financing component.

Service fees: Service fees revenue consist of revenues relating to the Organization's therapies and behavior clinic services. The performance obligation is to perform the indicated services for the customers under the contract. Revenues are recognized at a point in time as services are provided to the customer, which are then billed by the Organization to the customer or third party payor. Service fees revenue consist of contracts with individual patients and their caregivers that are mostly insured by Medicaid/Medicaid HMO. The other contracts within service fees are for commercially insured individuals and private pay individuals. The Organization reviewed contracts using a portfolio approach for individual patients due to similarities in contracts.

The Organization records service fees revenue from these contracts at an amount that reflects the consideration which it expects to be entitled to receive in exchange for the services provided. The transaction prices are generally listed in the contracts or individual client agreements. The Organization determines the net transaction price based on contractual adjustments under terms of third-party reimbursement agreements, a review of patient balances, and the likelihood of payment based on historical experience as well as specific patient circumstances. The stated and implied discounts for service fees revenue is approximately 36.6% and 35.9% in 2019 and 2018, respectively, from the stated gross charges. Revenue recognized from service fees was $717,420 and $979,421 in 2019 and 2018, respectively.

NOTE 1 - Summary of Significant Accounting Policies (continued)

Contracts with Customers (continued)

Child Care: The Organization provides child care services and the related revenue for these services is included in service fees and child care on the consolidated statements of activities. The Organization and parents have agreements determining the service to be provided and fee. The parents make payments monthly in the form of cash or government voucher subsidies. The services are provided over time as children are cared for each day. Revenue is recognized as the services are provided. Revenue recognized from child care was $1,000,046 and $856,985 in 2019 and 2018, respectively.

The Organization determined that service fees and child care revenue recognized and the timing of when the revenue is recognized under the new standard is materially the same as under the previous guidance. As a result, there was no cumulative adjustment. There are no expressed or implied warranties. There is no revenue recognized for services performed in prior periods. There are no contract assets or liabilities with these revenue sources.

Service fees and child care presented on the consolidated statements of activities also includes public support from other grants. These grants are recognized according to ASU No. 2018-08 and revenue is recognized when the conditions on which they depend have been met. Revenue recognized from other grants within service fees and child care are $659,584 and $670,235 in 2019 and 2018, respectively.

Income Taxes

Penfield, Friends of Penfield Children's Center, Inc., and PMA are exempt organizations for income tax purposes under Section 501(c)(3) of the Internal Revenue Code. VMMS Building Corp. is an exempt organization for income tax purposes under Section 501(c)(2) of the Internal Revenue Code. PMA Building, LLC and PCC Building, LLC are both single member LLC entities and considered disregarded entities and therefore take on the 501(c)(3) status of their sole member, Penfield. The Organization is generally exempt from federal and state income taxes.

The Organization files information returns in the U.S. Federal jurisdiction and the State of Wisconsin. None of the Organization's filed information returns are currently under examination by the Internal Revenue Service or the State of Wisconsin. The U.S. Federal information returns for 2015 and prior have passed the statute of limitations for audit by the Internal Revenue Service. The State of Wisconsin information returns for 2014 and prior have passed the statute of limitations for audit.

Accounting for Uncertainty in Income Taxes

The Organization follows current accounting guidance, which clarifies the accounting for uncertainty in income taxes recognized in the Organization's consolidated financial statements. The codification prescribes a recognition threshold and measurement attribute for the financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. The codification also provides guidance on derecognition and measurement of a tax position taken or expected to be taken in a tax return.

NOTE 1 - Summary of Significant Accounting Policies (continued)

Accounting for Uncertainty in Income Taxes (continued)

The Organization did not have unrecognized tax benefits as of December 31, 2019 and 2018 and does not expect this to change significantly over the next 12 months. The Organization will recognize interest and penalties, if any, associated with the Organization's tax positions as a component of unrelated business income tax expense on the consolidated statements of activities. As of December 31, 2019 and 2018, the Organization has not accrued tax, interest or penalties related to uncertain tax positions.

The Organization paid $20,456 for unrelated business income tax for employee parking benefits in 2019. The tax law was amended later in 2019 and the Organization amended the return to receive a refund. The Organization did not have any income tax expense in 2019 and 2018 and has recorded a receivable for refundable taxes paid related to unrelated business income tax totaling $20,456 and $0 at December 31, 2019 and 2018, respectively, that is included in accounts receivable on the consolidated statements of financial position.

Grant Funds Received in Advance

Grant funds received in advance at December 31, 2019 and 2018 consists of cash received from state aid in advance of the upcoming semester at PMA.

Volunteer Services

Donated services are reported as contributions when the services (a) create or enhance non-financial assets or (b) would be purchased if they had not been provided by contribution, require specialized skills and are provided by individuals possessing those skills. During 2019 and 2018, the Organization benefited from 7,813 and 9,236 volunteer hours, respectively, that do not meet the requirements for recognition in the consolidated financial statements.

Donated Materials

The Organization receives donated materials, which are primarily used for fundraising events or distributed to people in need of those materials. It is not the Organization's policy to record and value immaterial items which are distributed. Items donated and used by the Organization are recorded at their estimated fair value.

Functional Allocation of Expenses

Directly identifiable expenses are charged to programs, management and general, and development and fundraising. Expenses related to more than one function are charged to programs, management and general, and development and fundraising on the basis of full time equivalents, square footage, number of meals served, and clinical records. Information technology and services expenses are allocated based on supported full time equivalents. Facility operation expenses are allocated based on square footage utilization. Kitchen staff and supplies are allocated based on meals served. Clinical records expenses are allocated based on number of documents administered per year. Management and general expenses include those expenses that are not directly identifiable with any other specific function but provide for the overall support and direction of the Organization.

NOTE 1 - Summary of Significant Accounting Policies (continued)

Reclassification

Certain reclassifications have been made to the prior year's consolidated financial statements to conform to the current year's presentation. The reclassifications have no effect on reported amounts of net assets or change in net assets.

Estimates

The preparation of the consolidated 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 consolidated financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Liquidity and Availability of Resources

The following reflects the Organization's financial assets, reduced by amounts not available within one year for general use because of contractual or donor-imposed restrictions. Amounts not available include receivables collectible beyond one year and amounts set aside for long-term investing at Friends.

	2019	2018
Total assets, at year-end	$ 15,516,927	$ 15,505,521
Less non-financial assets		
Property and equipment, net	(4,533,954)	(4,207,803)
Prepaid expenses	(61,168)	(39,724)
Financial assets, at year-end	10,921,805	11,257,994
Less those unavailable for general expenditures within one year, due to:		
Restricted by donor with purpose restrictions	(1,671,969)	(1,807,241)
Contributions and pledges receivable subject to appropriation and satisfaction of donor's restriction	(1,791,968)	(3,211,257)
Contributions and pledges receivable collectible beyond one year without a purpose restriction	(116,375)	(115,316)
Long-term investments	(4,739,052)	(4,734,055)
Financial assets available to meet cash needs for general expenditures within one year	$ 2,602,441	$ 1,390,125

The Organization's practice is to structure its financial assets to be available as its general expenditures, liabilities and other obligations come due. The Organization has secured all major contracts through 2020 including the Charter School contract which the amount is dependent on the number of students enrolled; Milwaukee County Department of Human Services for $1,494,772; and year four of the SAMHSA five year grant for $400,000. In addition, the Organization has a $500,000 line of credit available to be used, if needed.

NOTE 1 - Summary of Significant Accounting Policies (continued)

Adopted Accounting Pronouncements

As required by ASU No. 2014-09, *Revenue from Contracts with Customers (Topic 606)* and all related amendments, the Organization adopted Topic 606 on January 1, 2019 using the modified retrospective transition method. There was no cumulative effect related to the adoption of the standard. As allowed under ASU No. 2014-09, the Organization's initial adoption of Topic 606 was only applied to contracts which were not complete as of January 1, 2019. Under the modified retrospective transition method, the Organization's 2018 consolidated financial statements continue to be accounted for under the FASB's Topic 605, *Revenue Recognition*, and have not been adjusted.

In 2019, the Organization adopted ASU No. 2018-08, *Not-for-Profit Entities (Topic 958): Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made*. The new guidance is intended to clarify and improve accounting guidance for contributions received and contributions made. The amendments in this ASU assist entities in (1) evaluating whether transactions should be accounted for as contributions (nonreciprocal transactions) or as exchange (reciprocal) transactions subject to other guidance and (2) determining whether a contribution is conditional. Adopting ASU No. 2018-08 did not have a significant impact on the consolidated financial statements of the Organization.

Recent Accounting Pronouncements

In February 2016, FASB issued ASU No. 2016-02, *Leases (Topic 842)* that amends the treatment for leases. The new accounting model for leases capitalizes all leases greater than twelve months, both capital and operating, as assets and liabilities on the consolidated statement of financial position. Not-for-profit entities will be required to apply the standard for annual periods beginning after December 15, 2021 (2022). Early adoption is permitted. Management is currently assessing the effect that ASU No. 2016-02 will have on its consolidated financial statements.

Subsequent Events

Management has evaluated subsequent events through July 8, 2020, the date which the consolidated financial statements were approved and available to be issued.

In December 2019, a novel strain of coronavirus was reported in Wuhan, Hubei province, China. In the first several months of 2020, the virus, SARS-CoV-2, and resulting disease, COVID-19, spread to the United States, including to geographic locations in which the Organization operates. As of the date above, the Organization’s evaluation of the effects of these events is ongoing. In March 2020, the Organization's locations were closed temporarily, either by order of local governmental authorities or at the Organization's discretion. Additionally, the Organization reduced the size and hours of its workforce. The duration and full extent of this disruption cannot be estimated; however, during the first five months of 2020, public support and revenues decreased approximately $66,000 compared to the same period in 2019.

NOTE 1 - Summary of Significant Accounting Policies (continued)

Subsequent Events (continued)

In March 2020, the federal government authorized a stimulus package through the Coronavirus Aid, Relief and Economic Security ("CARES") Act. As part of this stimulus package, PMA received $296,200 and Penfield received $980,700 Paycheck Protection Program ("PPP") Small Business Administration Loans. The PPP is designed to provide a direct financial incentive for small businesses to keep their workers on the payroll. The program will forgive loan balances to the extent employees are kept on the payroll and the loan principal is used for payroll, rent, mortgage interest, or utilities during the twenty-four week period following receipt. Any portion of the loan that is not forgiven will carry an interest rate of 1.0% and is due to be paid back within five years. The first payment can be deferred six months after the Small Business Administration makes a determination on forgiveness and there is no prepayment penalty.

Significant market fluctuations occurred since the date of the consolidated financial statements resulting in investments losses of $310,000 through May 31, 2020 or approximately 7% of fair value. In addition, the pandemic resulted in the closure or reduction in services since year end. However, the Organization has not withdrawn funds from marketable securities and has not made any draws on the line of credit through the date of issuance in order to fund operations. The Organization is developing plans to reopen several programs following health and safety guidelines and awaiting the Department of Public Instruction's guidance related to the reopening of PMA.

The extent of the impact of COVID-19 on the Organization's operational and financial performance will depend on future developments, including the duration and spread of the outbreak and related governmental or other regulatory actions.

NOTE 2 - Cash and Credit Risk

The Organization uses financial institutions in which they maintain cash balances that, at times, may exceed federally insured limits. The Organization has not experienced any losses in such accounts.

NOTE 3 - Investments

The Organization invests in equity securities and mutual funds which are reported at their aggregate fair value.

As of December 31, 2019 and 2018, all investments are classified as Level 1 investments, for which fair value is measured based on quoted prices in active markets for identical assets. The fair value of investment securities by major security type and class of security as of December 31 is as follows:

Classification Type	2019	2018
Master Limited Partnership Funds	$ -	$ 177,187
Bond Funds	1,410,022	1,093,193
Equity Funds	3,329,030	3,463,675
Totals	$ 4,739,052	$ 4,734,055

NOTE 4 - Contributions and Pledges Receivable

Contributions and pledges receivable are expected to be realized in the following periods:

	2019	2018
Less than one year	$ 1,945,904	$ 2,029,766
One to five years	365,625	1,890,218
Sub-totals	2,311,529	3,919,984
Less: Discount for present value	(14,155)	(87,044)
Totals	$ 2,297,374	$ 3,832,940

NOTE 5 - Property, Equipment, and Depreciation

Depreciation and amortization is calculated on the straight-line method using the following useful lives:

Buildings and improvements	31 - 33 years
Parking lot and land improvements	10 - 20 years
Equipment, software and vehicles	4 - 10 years

Property and equipment are summarized as follows:

	2019	2018
Land and parking lot	$ 344,324	$ 344,324
Building and improvements	7,512,326	7,306,864
Parking lot and land improvements	754,986	740,144
Office equipment	772,707	764,722
Software	354,863	354,863
Vehicles	112,553	191,634
Construction in progress	626,089	158,690
Sub-totals	10,477,848	9,861,241
Less: Accumulated depreciation	(5,943,894)	(5,653,438)
Totals	$ 4,533,954	$ 4,207,803

Construction in progress at December 31, 2019 consisted of the construction of a new parking lot and playground. Depreciation and amortization expense were $369,540 in 2019 and $377,377 in 2018.

NOTE 6 - Net Assets With Donor Restrictions

At December 31, net assets with donor restrictions consisted of:

	2019	2018
Investment earnings on endowment	$ 43,629	$ 4,077
Purpose and time restricted contributions	4,140,416	5,491,594
Endowment Fund - principal to be invested in perpetuity, income to be used for general operating purposes	795,600	200,000
Total	$ 4,979,645	$ 5,695,671

NOTE 7 - Endowments

The Organization's endowment fund consists of a general donor endowment. General endowment funds have been received from a donor for endowment purposes and the earnings may or may not be restricted for a specific purpose.

The Board of Directors understands that the Uniform Prudent Management of Institutional Funds Act ("UPMIFA") is the applicable state law governing their endowment funds. UPMIFA laws have been interpreted by the Board of Directors as allowing the appropriation for expenditure for the purposes for which an endowment is established as the net appreciation, realized and unrealized, in the fair value of an endowment fund over the historic dollar value of the fund as is prudent under ordinary business care considering the facts and circumstances prevailing at the time the action is taken.

The investment policy has been established by the Organization for endowment assets that attempts to provide a predictable stream of funding to the programs supported by its endowment while seeking to preserve the purchasing power of the endowment assets. The purpose of the Organization's investment policy, as approved by the Board of Directors, is to provide guidelines for investment, and performance of investments, of endowment funds that protect principal, grow the aggregate portfolio value in excess of the inflation rate, reach an effective annual rate of return that is equal to or greater than the designated benchmarks for the various types of investment vehicles, and to ensure that any risk assumed is in line with the given investment vehicle and the Organization's objectives.

The endowment assets are governed by a spending policy that seeks to distribute a specific payout rate from the endowment base to support the programs. Income from the fund will not be available for payout until the first day of the calendar quarter after the fund reaches a market value documented in each fund agreement. The endowment base is defined as the rolling average of market value for the most recent 20 quarters. The payout rate is 5 percent of the endowment base annually. The payout will not reduce the endowment principal below its original contributed value.

NOTE 7 - Endowments (continued)

Endowment net asset composition by type of fund consists of the following at December 31:

	2019				
		With Donor Restrictions			
	Without Donor Restrictions	Original Gift	Accumulated Gain (Losses)	Total	Total Endowment
Board designated	$ -	$ -	$ -	$ -	$ -
Donor restricted	-	757,775	43,629	801,404	801,404
Total endowment	$ -	$ 757,775	$ 43,629	$ 801,404	$ 801,404

	2018				
		With Donor Restrictions			
	Without Donor Restrictions	Original Gift	Accumulated Gain (Losses)	Total	Total Endowment
Board designated	$ -	$ -	$ -	$ -	$ -
Donor restricted	-	150,000	4,077	154,077	154,077
Total endowment	$ -	$ 150,000	$ 4,077	$ 154,077	$ 154,077

Changes in endowment net assets for the year ended December 31, are as follows:

		With Donor Restrictions			
	Without Donor Restrictions	Original Gift	Accumulated Gain (Losses)	Total	Total Endowment
Endowment Net Assets, as of January 1, 2018	$ -	$ 100,000	$ 19,629	$ 119,629	$ 119,629
Contributions	-	50,000	-	50,000	50,000
Investment loss - net of fees	-	-	(15,552)	(15,552)	(15,552)
Endowment Net Assets, as of December 31, 2018	$ -	$ 150,000	$ 4,077	$ 154,077	$ 154,077
Endowment Net Assets, as of January 1, 2019	$ -	$ 150,000	$ 4,077	$ 154,077	$ 154,077
Contributions	-	607,775	-	607,775	607,775
Investment income - net of fees	-	-	39,552	39,552	39,552
Endowment Net Assets, as of December 31, 2019	$ -	$ 757,775	$ 43,629	$ 801,404	$ 801,404

In addition, the endowment consists of a pledges receivable of $37,825 and $50,000 at December 31, 2019 and 2018, respectively.

NOTE 8 - Lease Commitments

The Organization leases certain office equipment and parking lot space under operating lease agreements with various expiration dates through 2023. Lease expenses for the years ended December 31, 2019 and 2018 were $18,246 and $17,894, respectively.

A summary of the future minimum lease payments required under the non-cancelable operating leases is as follows for the fiscal years ended December 31:

2020	$ 14,430
2021	4,774
2022	1,686
2023	843
Total	$ 21,733

NOTE 9 - Concentration of Risk

The Organization receives grants from various government agencies whose programs rely on the availability of funding from the United States government. Approximately 12% and 9% of the Organization's total public support and revenue is from school grants for 2019 and 2018, respectively. The Milwaukee County contract accounts for 16% and 17% of total public support and revenue for 2019 and 2018, respectively.

Two donors and three donors account for 57% and 69% of the Organization's total outstanding contributions and pledges receivable at December 31, 2019 and 2018, respectively. In 2019 and 2018, the aforementioned donors accounted for 1% and 11% of total public support and revenue, respectively. In 2019, no individual donors contributed more than 5% of total public support and revenues.

NOTE 10 - Units of Service

Milwaukee County contracted to purchase 123,600 and 130,297 units of service from the Organization under the Work and Day - Children's Services program contract for 2019 and 2018, respectively. The Organization provided 109,431 and 126,817 units of service for clients in 2019 and 2018, respectively.

NOTE 11 - Donated Services, Materials, and Equipment

The value of donated services, materials and equipment included as contributions in the consolidated financial statements and the corresponding expenses for the years ended December 31, are as follows:

	2019	2018
Advertising	$ 58,456	$ 43,130
Fundraising events - supplies	70,855	66,343
Information services - supplies	5,728	-
Totals	$ 135,039	$ 109,473

NOTE 11 - Donated Services, Materials, and Equipment (continued)

Items donated and sold at the Croquet Ball Auction are recorded at their realized value of $70,855 and $66,343 for 2019 and 2018, respectively, and included in contribution revenue on the consolidated statements of activities.

NOTE 12 - Employee Retirement Plan

The Organization has a 403(b) employee retirement plan for eligible employees. The Organization matches employee contributions up to 3% of the employee's gross wages. The Organization contributed $110,510 and $93,495 to the plan during 2019 and 2018, respectively.

NOTE 13 - Notes Payable

In June 2016, the Organization entered into a demand line of credit agreement with a financial institution. The line of credit has a limit of $500,000. The line is secured by all business assets. The interest rate on the line is Wall Street Journal Prime Rate plus 0.05%. The line does not have an expiration date, however, the financial institution can notify the Organization to pay any outstanding balance within ninety days and terminate the line. The line has an outstanding balance of $0 at December 31, 2019 and 2018.

In October 2016, a non-revolving line of credit for the new school was taken out by PMA Building, LLC with Town Bank. The line of credit was paid in full during 2018 and expired without renewal on October 28, 2018. The line had an outstanding balance of $0 at December 31, 2019 and 2018. Interest expense in 2019 and 2018 was $0 and $23,390, respectively.

In 2019, a line of credit for construction of a parking lot was taken out by PCC Building, LLC with Town Bank. The line of credit was converted to an unsecured note payable on July 26, 2019. The note payable had an outstanding balance of $366,335 at December 31, 2019. Interest and loan fees of $2,970 were capitalized during 2019. Interest expense was $360 in 2019. The parking lot was placed into service in 2020. Monthly interest payments are due with an interest rate of LIBOR plus 1.25% (2.93% at December 31, 2019) for the first 12 months of the note. Beginning August 1, 2020, the interest rate changes to a fixed 3.95% for the remainder of the note, principal and interest is payable in 59 monthly installments of $3,292 with a final payment equal to all unpaid principal and accrued interest due July 1, 2025. Future principal payments on the note payable for the years ending after December 31, 2019 are as follows:

2020	$ 11,720
2021	25,960
2022	27,005
2023	28,091
2024 and thereafter	273,559
Total	$ 366,335

NOTE 14 - Commitments and Contingencies

Financial awards from federal, state and local governments in the form of grants are subject to special audit. Such audits could result in claims against the Organization for disallowed costs or noncompliance with grantor restrictions. No provision has been made for any liabilities that may arise from such audits since the amounts, if any, cannot be determined at this time.