

ORANGE COUNTY ADULT ACHIEVEMENT CENTER
dba MY DAY COUNTS

INDEPENDENT AUDITORS' REPORT
AND SUPPLEMENTARY INFORMATION

DECEMBER 31, 2018 AND 2017

BATES COUGHTRY REISS LLP
Certified Public Accountants

ORANGE COUNTY ADULT ACHIEVEMENT CENTER
dba MY DAY COUNTS

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INDEPENDENT AUDITORS' REPORT

To the Board of Directors
Orange County Adult Achievement Center
dba My Day Counts
Anaheim, California 92801

*Professional Corporation

We have audited the accompanying financial statements of Orange County Adult Achievement Center dba My Day Counts (a nonprofit organization) which comprise the statements of financial position as of December 31, 2018 and 2017, and the related statements of activities and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Orange County Adult Achievement Center dba My Day Counts as of December 31, 2018 and 2017, 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-Matter

Our audits were conducted for the purpose of forming an opinion on the financial statements as a whole. The schedules of functional expenses on pages 12 and 13 are presented for purposes of additional analysis and are not required parts of the 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 audits 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 financial statements as a whole.

Bates Loughrey & Co LLP

Brea, California
May 17, 2019

ORANGE COUNTY ADULT ACHIEVEMENT CENTER
 dba MY DAY COUNTS
 STATEMENTS OF FINANCIAL POSITION
 December 31, 2018 and 2017

	2018	2017
<u>CURRENT ASSETS</u>		
Cash and cash equivalents (Note 2)	\$ 3,066,104	\$ 3,192,871
Accounts receivable (Note 1)	1,418,729	1,644,760
Supplies & inventories	258,292	361,240
Prepaid expenses (Note 3)	59,136	57,350
 Total current assets	 4,802,261	 5,256,221
<u>FIXED ASSETS</u>		
Property and equipment, net of accumulated depreciation of \$6,547,948 and \$5,991,730 for 2018 and 2017 respectively (Note 4)	4,766,497	4,851,569
<u>OTHER ASSETS</u>		
Loan financing costs, less accumulated amortization of \$2,462 and \$1,664 for 2018 and 2017 respectively	5,524	6,322
Deposits	36,794	36,757
 Total other assets	 42,318	 43,079
 Total assets	 \$ 9,611,076	 \$ 10,150,869

See Independent Auditors' Report.
 See Accompanying Notes to Financial Statements.

ORANGE COUNTY ADULT ACHIEVEMENT CENTER
 dba MY DAY COUNTS
 STATEMENTS OF FINANCIAL POSITION
 December 31, 2018 and 2017

	2018	2017
<u>LIABILITIES AND NET ASSETS</u>		
<u>CURRENT LIABILITIES</u>		
Accounts payable	\$ 331,163	\$ 576,846
Accrued expenses	30,614	103,573
Accrued salaries & vacation pay	271,021	287,874
Loan payable (Note 5)	136,025	130,673
Total current liabilities	768,823	1,098,966
<u>LONG-TERM LIABILITIES</u>		
Loan payable (Note 5)	2,152,631	2,288,656
Total liabilities	2,921,454	3,387,622
<u>NET ASSETS</u>		
Unrestricted	6,689,622	6,763,247
TOTAL NET ASSETS	6,689,622	6,763,247
TOTAL LIABILITIES AND NET ASSETS	\$ 9,611,076	\$ 10,150,869

See Independent Auditors' Report.
 See Accompanying Notes to Financial Statements.

ORANGE COUNTY ADULT ACHIEVEMENT CENTER
 dba MY DAY COUNTS
 STATEMENTS OF ACTIVITIES
 For the Years Ended December 31, 2018 and 2017

	2018	2017
<u>CHANGES IN UNRESTRICTED NET ASSETS</u>		
SUPPORT AND REVENUE:		
Contributions	\$ 283,180	\$ 125,925
Work activity program	953,856	1,073,000
Transportation income	1,631,134	1,795,758
Independent living fees	197,111	202,172
CCDAP fees	1,110,082	1,072,225
Supported employment fees	606,359	736,981
Contract income	2,225,999	2,127,872
Food services	56,450	58,831
Family Connections income	1,516,619	1,733,699
Investment income	19,387	10,694
Aide support	820,050	847,260
Life Unlimited	755,149	748,427
Training sites	149,200	-
Assessment income	12,000	9,125
Miscellaneous	1,034	602
Total support and revenue	10,337,610	10,542,571
Net assets released from restriction	-	14,766
Total unrestricted support, revenue and other	10,337,610	10,557,337
EXPENSES:		
Program and supporting services	10,411,235	10,492,055
Change in unrestricted net assets	(73,625)	65,282
<u>CHANGES IN TEMPORARILY RESTRICTED NET ASSETS</u>		
Net assets released from restrictions	-	(14,766)
Changes in temporarily restricted net assets	-	(14,766)
CHANGE IN NET ASSETS	(73,625)	50,516
NET ASSETS, Beginning of Year	6,763,247	6,712,731
NET ASSETS, End of Year	\$ 6,689,622	\$ 6,763,247

See Independent Auditors' Report.
 See Accompanying Notes to Financial Statements.

ORANGE COUNTY ADULT ACHIEVEMENT CENTER
 dba MY DAY COUNTS
 STATEMENTS OF CASH FLOWS
 For the Years Ended December 31, 2018 and 2017
 Increase (Decrease) in Cash and Cash Equivalents

	2018	2017
<u>CASH FLOWS FROM OPERATING ACTIVITIES</u>		
Change in net assets	\$ (73,625)	\$ 50,516
Adjustments to reconcile changes in net assets to net cash provided by operating activities:		
Depreciation & amortization expense	557,016	452,747
Changes in operating assets and liabilities:		
Decrease in accounts receivable	226,031	413,653
(Increase)/decrease in prepaid expense	(1,786)	5,486
(Increase)/decrease in supplies/inventory	102,948	(96,412)
Increase in deposits	(37)	(37)
Decrease in accounts payable	(245,683)	(250,423)
(Decrease)/increase in accrued expenses	(72,959)	48,697
(Decrease)/increase in accrued salaries/vacation	(16,853)	23,559
Net cash provided by operating activities	475,052	647,786
<u>CASH FLOWS FROM INVESTING ACTIVITIES</u>		
Capital expenditures	(471,146)	(166,003)
Net cash used by investing activities	(471,146)	(166,003)
<u>CASH FLOWS FROM FINANCING ACTIVITIES</u>		
Principal payments on loan payable	(130,673)	(125,545)
Net cash used for financing activities	(130,673)	(125,545)
Net Increase/(Decrease) in Cash and Cash Equivalents	(126,767)	356,238
Cash and Cash Equivalents at Beginning of Year	3,192,871	2,836,633
Cash and Cash Equivalents at End of Year	\$ 3,066,104	\$ 3,192,871

See Independent Auditors' Report.
 See Accompanying Notes to Financial Statements.

ORANGE COUNTY ADULT ACHIEVEMENT CENTER
dba MY DAY COUNTS
NOTES TO FINANCIAL STATEMENTS
December 31, 2018 and 2017

NOTE 1 – NATURE OF ACTIVITIES AND SIGNIFICANT ACCOUNTING POLICIES

- A. The Association was incorporated in 1955 as a non-profit organization providing services to the developmentally disabled. The Association is exempt from taxation under the provisions of the Internal Revenue Code Section 501(c)(3), and Section 23701(d) of the California Revenue and Taxation Code.
- B. The Association implements Statement of Financial Accounting Standards FASB ASC 958-205. In accordance with FASB ASC 958-205, the Association is required to report information regarding its financial position and activities according to three classes of net assets: unrestricted net assets, temporarily restricted net assets, and permanently restricted net assets. In addition, the Association is required to present a statement of cash flows.
- C. The Association implements FASB ASC 958-225. In accordance with FASB ASC 958-225, contributions received are recorded as unrestricted, temporarily restricted, or permanently restricted support depending on the existence and/or nature of any donor stipulation that limit the use of the donation. When a donor time restriction expires or purpose restriction is accomplished, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets released from restrictions.
- D. All transactions are recorded using the accrual basis method of accounting.
- E. The Association implements FASB ASC 958-320. In accordance with FASB ASC 958-320, investments in equity securities with readily determinable fair values and all investments in debt securities are reported at fair value with unrealized or realized gains or losses included in the Statement of Activities.
- F. Fixed assets are shown at cost, less accumulated depreciation. Donations of property and equipment are recorded as support at their estimated fair value. Such donations are reported as unrestricted support unless the donor has restricted the donated asset to a specific purpose. Assets donated with explicit restrictions regarding their use and contributions of cash that must be used to acquire property and equipment are reported as restricted support. Absent donor stipulations regarding how long those donated assets must be maintained, the Association reports expirations of donor restrictions when the donated or acquired assets are placed in service as instructed by the donor. The Association reclassifies temporarily restricted net assets to unrestricted net assets at that time. Depreciation is computed using the straight-line method over estimated useful lives ranging from three to forty years.
- G. Accounts receivable are reported at the amount management expects to collect from outstanding balances. The differences between the amount due and the amount management expects to collect are reported in the results of operations of the year in which those differences are determined, with an offsetting entry to a valuation allowance for accounts receivable. Balances that are still outstanding after management has used reasonable collection efforts are written off through a charge to the valuation allowance and a credit to accounts receivable.
- H. The Association expenses advertising costs as they are incurred. Total advertising expense, including promotion, was \$27,483 for the year ended December 31, 2018 and \$22,589 for the year ended December 31, 2017.

See Independent Auditors' Report.

ORANGE COUNTY ADULT ACHIEVEMENT CENTER
 dba MY DAY COUNTS
 NOTES TO FINANCIAL STATEMENTS
 December 31, 2018 and 2017

NOTE 1 – NATURE OF ACTIVITIES AND SIGNIFICANT ACCOUNTING POLICIES (cont'd)

- I. The Statement of Cash Flows is prepared using the indirect method. For purposes of the Statement of Cash Flows, the Association considers all highly liquid debt instruments purchased with a maturity date of twelve months or less, and that have a fixed interest rate of return, to be cash equivalents.
- J. Inventories consist primarily of raw materials used in the packaging of coffee cleaner packets and coffee maker supplies. Inventories are stated at the net realizable value determined by the first-in, first-out method.
- K. The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.
- L. The Association has adopted FASB ASC 740, Income Taxes which changes the framework for accounting for uncertainty in income taxes. Management has considered its tax positions and believes that the positions taken by the Association are more likely than not to be sustained upon examination. As of and for the year ended December 31, 2018, management has determined that the Association did not have any unrelated business activities subject to tax. Orange County AAC's tax returns are subject to examination by Federal taxing authorities for a period of three years from the date they are filed and for a period of four years for California taxing authorities.
- M. Directly identifiable expenses are charged to programs and supporting services. Expenses related to more than one function are charged to programs and supporting services on the basis of periodic time and expense studies. 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 Association. The Association's administrative expenses are 8.5% and 9.1% of total expenses at December 31, 2018 and 2017, respectively.

NOTE 2 – CASH AND CASH EQUIVALENTS

	2018	2017
Cash consists of the following:		
Petty cash	\$ 1,000	\$ 1,000
Cash and T-bills	3,065,104	3,191,871
	\$ 3,066,104	\$ 3,192,871

See Independent Auditors' Report.

ORANGE COUNTY ADULT ACHIEVEMENT CENTER
dba MY DAY COUNTS
NOTES TO FINANCIAL STATEMENTS
December 31, 2018 and 2017

NOTE 3 – PREPAID EXPENSES

As of December 31, 2018 and 2017, the following expenses were prepaid:

	<u>2018</u>	<u>2017</u>
Rent	\$ 26,164	\$ 26,164
Insurance	32,576	30,865
Miscellaneous	396	321
	<u>\$ 59,136</u>	<u>\$ 57,350</u>

NOTE 4 – PROPERTY AND EQUIPMENT

	<u>Cost</u>	<u>Accumulated Depreciation</u>	<u>Book Value</u>
Land	\$ 807,280	\$ -	\$ 807,280
Buildings	6,036,165	2,843,581	3,192,584
Workshop and equipment	1,143,468	897,845	245,623
Office furniture and fixtures	704,363	607,296	97,067
Vehicles	2,623,169	2,199,226	423,943
	<u>\$ 11,314,445</u>	<u>\$ 6,547,948</u>	<u>\$ 4,766,497</u>

NOTE 5 – LOAN PAYABLE

In May 2005 the Association borrowed \$400,000 from the California Health Facilities Financing Authority. This loan is payable in monthly installments of \$2,762, including interest at 3%, due May 2020.

In October 2015 the Association refinanced the loan originally made in March 2010. The terms of the new loan include \$2,530,000 borrowed with an initial interest rate of 4.00% for the first seven years. At the end of the seven years the rate will convert to the then three year Treasury plus 2.00% for the remaining three years. The loan is amortized over 20 years, due in 10 years. The monthly payment is \$15,409. The loan has various terms and conditions, including minimum cash flow coverage of 1.20.

See Independent Auditors' Report.

ORANGE COUNTY ADULT ACHIEVEMENT CENTER
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NOTES TO FINANCIAL STATEMENTS
December 31, 2018 and 2017

NOTE 5 – LOAN PAYABLE (cont'd)

Principal maturities of long-term debt are as follows:

Years ending December 31,		
2019	\$	136,025
2020		116,982
2021		104,278
2022		108,586
2023		113,073
Thereafter		<u>1,709,712</u>
Total		2,288,656
Less current maturities		<u>136,025</u>
Total long-term maturities		<u>\$ 2,152,631</u>

NOTE 6 – LEASE COMMITMENTS

The Association has four leases for facilities in Anaheim for the Life Unlimited program. The first is a ten-year lease that began April 1, 2005 with the following terms: \$7,262 per month or \$87,144 per year for years one through five, \$8,424 per month or \$101,088 per year for years six through ten. The lease has been renewed for a period of five years beginning April 1, 2015 at \$8,892 per month or \$106,704 per year. The total remaining lease obligation of this lease is \$133,380. The second is a two-year lease that began September 1, 2018 with the following terms: \$1,488 per month or \$17,856 per year. The total remaining lease obligation of this lease is \$29,760. The third is a two-year lease that began May 1, 2018 with the following terms: \$2,399 per month or \$28,788 per year. The total remaining lease obligation of this lease is \$38,384. The fourth is a two-year lease that began May 1, 2018 with the following terms: \$1,385 per month or \$16,620 per year. The total remaining lease obligation of this lease is \$22,160.

NOTE 7 – STATEMENT OF CASH FLOWS

A. Supplemental disclosure of cash flow information:

	<u>2018</u>	<u>2017</u>
Cash paid during the year for		
Interest	<u>\$ 95,605</u>	<u>\$ 100,751</u>

B. Supplemental schedule of noncash investing and financing activities:

None

See Independent Auditors' Report.

ORANGE COUNTY ADULT ACHIEVEMENT CENTER
dba MY DAY COUNTS
NOTES TO FINANCIAL STATEMENTS
December 31, 2018 and 2017

NOTE 8 – CONCENTRATIONS OF CREDIT RISK

The Association has accounts at various banks. The accounts at each bank are insured by the Federal Deposit Insurance Corporation up to \$250,000. The Association does maintain balances above \$250,000. These amounts are not insured by the Federal Deposit Insurance Corporation.

Financial instruments, which potentially expose the Association to concentrations of credit risk, consist primarily of trade accounts receivable. A majority of the Association's accounts receivable are made up of fees from the Regional Center of Orange County, which make up 56% of the receivables, the Orange County Transportation Authority, which make up 15% of the receivables and Ecolab, which make up 21% of receivables at December 31, 2018. The remainder of the accounts receivable are made up of contract sales to mostly Orange County businesses.

NOTE 9 – SUBSEQUENT EVENTS

Management has evaluated subsequent events through May 17, 2019, which is the date the financial statements were available to be issued. On March 22, 2019 a lawsuit was filed against Orange County Adult Achievement Center and Resource Employment Solutions. Orange County Adult Achievement Center contracted with Resource Employment Solutions to provide temporary employment services. The individual who brought the suit was an employee of Resource Employment Solutions. Although it is impossible to predict the ultimate outcome of these claims, in the opinion of management, the Company maintains an adequate level of insurance in the event of an adverse judgement. Management believes that the outcome of these matters will not have a material adverse effect on the Company's combined financial position, results of operations, or liquidity.

See Independent Auditors' Report.

SUPPLEMENTARY INFORMATION

ORANGE COUNTY ADULT ACHIEVEMENT CENTER
dba MY DAY COUNTS
SCHEDULE OF FUNCTIONAL EXPENSES
For the Years Ended December 31, 2018

	<u>Program Services</u>	<u>Support Services</u>	<u>Total</u>
<u>EXPENSES</u>			
Advertising/Promotion	\$ 3,685	\$ 23,798	\$ 27,483
Purchases	1,115,716	-	1,115,716
Staff salaries	2,787,416	537,157	3,324,573
Temporary help-agency	668,000	-	668,000
Temporary help-production	188,598	-	188,598
Sales commissions	25,507	38,418	63,925
Client wages	354,009	-	354,009
Payroll taxes	256,156	47,567	303,723
Workers' compensation	160,570	9,472	170,042
Insurance	404,056	32,390	436,446
Contract materials	13,705	-	13,705
Freight/postage	1,091	3,185	4,276
Small tools and supplies	18,987	24	19,011
Vehicle expense	45,659	121	45,780
Bldg & equip. maintenance	137,854	27,872	165,726
Occupancy	169,749	-	169,749
Utilities	114,940	2,335	117,275
Telephone	19,334	11,914	31,248
Staff mileage	43,155	8,343	51,498
Copy machine expense	22,033	639	22,672
Staff development/training	4,570	4,657	9,227
Office & printing	12,165	4,884	17,049
Staff recruitment	11,427	2,723	14,150
Professional & legal	-	84,886	84,886
Conferences & meetings	1,779	7,792	9,571
Dues & subscriptions	1,876	3,313	5,189
Tax, licenses and permits	-	6,914	6,914
Transportation	1,422,740	-	1,422,740
Client reinforcements/incentives	(300)	-	(300)
CARF expense	3,979	3,822	7,801
Interest expense	93,754	1,851	95,605
Fund raising expense	-	22,820	22,820
Home care provider	735,369	-	735,369
Miscellaneous	143,654	(13,914)	129,740
Total expenses before provision for depreciation & amortization	8,981,233	872,983	9,854,216
Provision for depreciation & amortization	544,632	12,387	557,019
Total expenses	<u>\$ 9,525,865</u>	<u>\$ 885,370</u>	<u>\$ 10,411,235</u>

See Independent Auditors' Report.

ORANGE COUNTY ADULT ACHIEVEMENT CENTER
dba MY DAY COUNTS
SCHEDULE OF FUNCTIONAL EXPENSES
For the Years Ended December 31, 2017

	<u>Program Services</u>	<u>Support Services</u>	<u>Total</u>
<u>EXPENSES</u>			
Advertising/Promotion	\$ 6,923	\$ 15,666	\$ 22,589
Purchases	1,077,822	-	1,077,822
Staff salaries	2,763,724	568,650	3,332,374
Temporary help-agency	665,591	599	666,190
Temporary help-production	142,829	-	142,829
Sales commissions	17,310	37,779	55,089
Client wages	354,986	-	354,986
Payroll taxes	280,949	49,166	330,115
Workers' compensation	168,430	3,527	171,957
Insurance	362,935	38,304	401,239
Contract materials	23,722	-	23,722
Freight/postage	734	2,563	3,297
Small tools and supplies	17,534	823	18,357
Vehicle expense	37,944	526	38,470
Bldg & equip. maintenance	157,422	33,783	191,205
Occupancy	169,332	-	169,332
Utilities	106,391	2,152	108,543
Telephone	18,963	10,288	29,251
Staff mileage	39,869	6,516	46,385
Copy machine expense	20,292	628	20,920
Staff development/training	3,844	5,285	9,129
Office & printing	10,861	8,058	18,919
Staff recruitment	5,106	251	5,357
Professional & legal	-	57,042	57,042
Conferences & meetings	1,040	11,578	12,618
Dues & subscriptions	3,351	2,403	5,754
Tax, licenses and permits	-	7,179	7,179
Transportation	1,558,844	-	1,558,844
Client reinforcements/incentives	300	-	300
ARC support	9,900	-	9,900
CARF expense	3,468	-	3,468
Interest expense	98,827	1,924	100,751
Fund raising expense	-	14,000	14,000
Home care provider	824,543	-	824,543
Miscellaneous	<u>133,409</u>	<u>73,423</u>	<u>206,832</u>
Total expenses before provision for depreciation & amortization	9,087,195	952,113	10,039,308
Provision for depreciation & amortization	<u>443,417</u>	<u>9,330</u>	<u>452,747</u>
 Total expenses	 <u>\$ 9,530,612</u>	 <u>\$ 961,443</u>	 <u>\$ 10,492,055</u>

See Independent Auditors' Report.