

**SAN RAMON VALLEY SCHOOL AGE
CHILD CARE ALLIANCE, INC. dba KIDS' COUNTRY**

FINANCIAL STATEMENTS

June 30, 2013 and 2012

SAN RAMON VALLEY SCHOOL AGE CHILD CARE ALLIANCE, INC.
dba KIDS' COUNTRY

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INDEPENDENT AUDITORS' REPORT

To the Board of Directors of
San Ramon Valley School Age Child Care Alliance, Inc. dba Kids' Country
Danville, California

We have audited the accompanying financial statements of San Ramon Valley School Age Child Care Alliance, Inc. dba Kids' Country, which comprise the statements of financial position as of June 30, 2013 and 2012, and the related statements of activities and changes in net assets, 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.

Auditors' Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditors consider internal control relevant to the 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 San Ramon Valley School Age Child Care Alliance, Inc. dba Kids' Country as of June 30, 2013 and 2012, and the results of its operations and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Burr Pilger Mayer, Inc.

Santa Rosa, California
November 19, 2013

SAN RAMON VALLEY SCHOOL AGE CHILD CARE ALLIANCE, INC.
dba KIDS' COUNTRY

STATEMENTS OF FINANCIAL POSITION

June 30, 2013 and 2012

	2013	2012
ASSETS		
Current assets:		
Cash	\$ 1,136,943	\$ 839,468
Accounts receivable, net	75,211	69,990
Prepaid expenses	76,666	44,481
Promise to give - rent receivable, net	206,634	206,634
Total current assets	1,495,454	1,160,573
Promise to give - rent receivable, net	1,290,080	1,357,478
Property and equipment, net	3,231,184	3,487,901
Other assets	10,296	12,796
Total assets	\$ 6,027,014	\$ 6,018,748
LIABILITIES AND NET ASSETS		
Current liabilities:		
Note payable, current portion	\$ 110,698	\$ 103,338
Accounts payable	177,042	123,027
Accrued expenses	447,045	410,164
Deferred revenue	354,633	330,760
Other liabilities	21,508	31,632
Total current liabilities	1,110,926	998,921
Note payable, net of current portion	56,163	166,675
Total liabilities	1,167,089	1,165,596
Contingencies and commitments (Note 12)		
Net assets:		
Unrestricted	3,363,211	3,289,040
Temporarily restricted	1,496,714	1,564,112
Total net assets	4,859,925	4,853,152
Total liabilities and net assets	\$ 6,027,014	\$ 6,018,748

The accompanying notes are an integral
part of these financial statements.

SAN RAMON VALLEY SCHOOL AGE CHILD CARE ALLIANCE, INC.
dba KIDS' COUNTRY

STATEMENTS OF ACTIVITIES AND CHANGES IN NET ASSETS

for the years ended June 30, 2013 and 2012

	2013			2012		
	Unrestricted	Temporarily Restricted	Total	Unrestricted	Temporarily Restricted	Total
Revenue and support:						
Program income, net of scholarships	\$ 7,095,661	\$ -	\$ 7,095,661	\$ 6,829,303	\$ -	\$ 6,829,303
Contributions	1,495	139,236	140,731	2,038	144,799	146,837
Interest income	727	-	727	766	-	766
Miscellaneous income	410	-	410	-	-	-
Net assets released from restrictions	206,634	(206,634)	-	206,634	(206,634)	-
 Total revenue and support	 7,304,927	 (67,398)	 7,237,529	 7,038,741	 (61,835)	 6,976,906
Program expenses:						
Summer Program	653,616	-	653,616	749,571	-	749,571
School Year Program	4,843,900	-	4,843,900	4,889,814	-	4,889,814
 Total programs expenses	 5,497,516	 -	 5,497,516	 5,639,385	 -	 5,639,385
General and administrative	1,733,240	-	1,733,240	1,542,418	-	1,542,418
 Total expenses by function	 7,230,756	 -	 7,230,756	 7,181,803	 -	 7,181,803
 Changes in net assets	 74,171	 (67,398)	 6,773	 (143,062)	 (61,835)	 (204,897)
Net assets, beginning of year	3,289,040	1,564,112	4,853,152	3,432,102	1,625,947	5,058,049
Net assets, end of year	\$ 3,363,211	\$ 1,496,714	\$ 4,859,925	\$ 3,289,040	\$ 1,564,112	\$ 4,853,152

The accompanying notes are an integral
part of these financial statements.

SAN RAMON VALLEY SCHOOL AGE CHILD CARE ALLIANCE, INC.
dba KIDS' COUNTRY

STATEMENTS OF CASH FLOWS

for the years ended June 30, 2013 and 2012

	2013	2012
Cash flows from operating activities:		
Changes in net assets	\$ 6,773	\$ (204,897)
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation	335,140	401,714
Bad debt expense	18,675	1,000
Amortization of discount on promise to give	(139,236)	(144,799)
Change in promise to give - rent receivable	206,634	206,634
(Increase) decrease in operating assets:		
Accounts receivable	(23,896)	63,354
Prepaid expenses	(32,185)	23,371
Other assets	2,500	(727)
Increase (decrease) in operating liabilities:		
Accounts payable	54,015	(52,441)
Accrued expenses	36,881	41,387
Deferred revenue	23,873	(95,141)
Other liabilities	(10,124)	20,688
Net cash provided by operating activities	479,050	260,143
Cash flows from investing activities:		
Purchase of property and equipment	(78,423)	(267,892)
Net cash used in investing activities	(78,423)	(267,892)
Cash flows from financing activities:		
Payments on notes payable	(103,152)	(96,147)
Net cash used in financing activities	(103,152)	(96,147)
Net increase (decrease) in cash	297,475	(103,896)
Cash, beginning of year	839,468	943,364
Cash, end of year	\$ 1,136,943	\$ 839,468
Supplemental disclosure of cash flow information:		
Cash paid during the year for interest	\$ 14,397	\$ 24,635

The accompanying notes are an integral part of these financial statements.

SAN RAMON VALLEY SCHOOL AGE CHILD CARE ALLIANCE, INC.
dba KIDS' COUNTRY

NOTES TO FINANCIAL STATEMENTS

June 30, 2013 and 2012

1. Summary of Significant Accounting Policies

Nature of Organization

San Ramon Valley School Age Child Care Alliance, Inc. dba Kids' Country (Kids' Country or the Organization) is a California nonprofit public benefit corporation created in 1985. The Organization's mission is to serve parents' needs for reliable, quality childcare during out of school hours by providing diverse enrichment programs which are fun, affordable, safe, and convenient. The Organization's principal objectives are to provide a challenging social and academic environment to the individual children, a nurturing, culturally diverse atmosphere, and to maintain open communication with the children, parents, staff, and the local school systems. Kids' Country's vision is to offer high level programming to unlock children's true potential and inspire the leaders of tomorrow.

For the years ended June 30, 2013 and 2012, the Organization operated school year programs at 13 elementary school sites. More than 1,600 children were enrolled in these programs during 2013 and 2012. Programming was divided into two calendars, school-year and summer camp, which was held during summer vacation.

School Year Program – The Organization expanded the Program of the Arts during the year ended June 30, 2013, by expanding the number of curriculum subjects to include the Visual and Performing Arts, Language, STEM (Science, Technology, Engineering and Math), and Leadership (Character Building and Team Development). The Organization hired additional curriculum specialists, purchased innovative materials, and provided professional development opportunities to specialists. Several of the curricular areas the Organization seeks to add to the programs require special facilities and/or support materials, which are impractical to provide at all sites. Kids' Country is embarking on an ambitious plan to build and staff a Center for the Arts and Sciences which will allow the Organization to provide unique learning opportunities for children.

Summer Program - Kids' Country offers five different summer camp experiences to children entering transitional Kindergarten through 5th grade. Summer camp offerings include Camp Wigalo for the younger children, traditional summer camp for all elementary school ages, Extreme Adventure Camp for grades three through five, Academic Specialty Camp for all elementary school ages and Camp Getaway for grades four and five. Camp Getaway's focus is on outdoor activities in a collaborative setting, in which children spend a week in the redwoods.

Basis of Presentation

Kids' Country reports information regarding its financial position and activities on an accrual basis according to three classes of net assets: unrestricted, temporarily restricted, and permanently restricted.

Unrestricted Net Assets

Unrestricted net assets consist of all resources that have not been restricted by a donor.

Continued

SAN RAMON VALLEY SCHOOL AGE CHILD CARE ALLIANCE, INC.
dba KIDS' COUNTRY

NOTES TO FINANCIAL STATEMENTS

June 30, 2013 and 2012

1. Summary of Significant Accounting Policies, continued

Basis of Presentation, continued

Temporarily Restricted Net Assets

Temporarily restricted net assets represent the portion of net assets of which use is limited by donor-imposed stipulations. When a stipulated time restriction ends or purpose restriction is accomplished, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statements of activities and changes in net assets as net assets released from restrictions. Temporarily restricted net assets consist of a non-cash promise to give of free rent receivable through the use of a long lived asset (site leases) as discussed in Note 11.

Permanently Restricted Net Assets

Permanently restricted net assets represent the contributions to be held in perpetuity as directed by the donor. The income from these investments is available to support activities as designated by such donors. Kids' Country did not have any permanently restricted net assets at June 30, 2013 or 2012.

Cash

Cash consists of cash on deposit with two financial institutions and cash on hand in petty cash funds.

Accounts Receivables, net

Accounts receivables consist primarily of pre-billings for upcoming summer camp tuition fees. Kids' Country uses the allowance method to account for uncollectible receivables. The allowance for doubtful accounts is based on historical experience and an evaluation of the outstanding receivables on an ongoing basis. The allowance is based on experience, contracts, and other circumstances that may affect the ability of clients to meet their obligations. It is Kids' Country's policy to adjust uncollectible accounts receivable when management determines the receivable will not be collected. The allowance for doubtful accounts was \$2,974 and \$3,207 as of June 30, 2013 and 2012, respectively.

Promises to Give - Rent Receivable

Kids' Country received a promise to give of free rent through the use of a long-lived asset (site leases). This receivable was classified as a temporarily restricted asset. A contribution was recognized as revenue in the period the use of facilities is received, regardless of whether Kids' Country could afford to pay rent for the facilities. Contributed facilities to be used for a period of time are recognized as an unconditional pledge receivable and temporarily restricted contribution revenue. Temporarily restricted net assets related to the promised use of facilities are released to unrestricted net assets over the period of use. Pledges that extend beyond one year are discounted to reflect their net present value at the period of contribution. Discount amortization is recognized as contributions in the statements of activities and changes in net assets.

Continued

SAN RAMON VALLEY SCHOOL AGE CHILD CARE ALLIANCE, INC.
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NOTES TO FINANCIAL STATEMENTS

June 30, 2013 and 2012

1. Summary of Significant Accounting Policies, continued

Property and Equipment

Property and equipment are stated at cost or, if donated, at fair value at the date of donation. Acquisitions of property and equipment individually or in bulk in excess of \$3,000 and useful life of more than one year are capitalized. Depreciation is computed using the straight-line method over the estimated useful lives of the related assets.

Estimated useful lives are as follows:

Leasehold improvements	8 years
Furniture and fixtures	3 - 11 years
Computers, systems, and peripherals	> 1 - 7 years
Vehicles	5 years
Software	3 years
Buildings	10 - 40 years

Expenditures for maintenance and repairs are charged to expense as incurred.

Accrued Compensated Absences

A liability is recorded for the estimated amounts of compensation for future absences. Unused vacation leave can be accrued up to two years worth of an employee's annual accrual or 320 hours, whichever is lower. In addition, one half of unused sick leave is payable upon termination. Annual leave accruals are recorded in the financial statements as accrued expenses, based on hourly rates in effect at the respective statements of financial position date.

Deferred Revenue

Deferred revenue consists of fees received or billed in advance related to the summer camp program, held in July and August.

Grants and Donations

All grants and donations considered contributions are unrestricted unless specifically restricted by the donor. Amounts received that are designated for future periods or restricted by the donor for specific purposes are reported as temporarily restricted or permanently restricted support that increases the related net assets, and accounted for accordingly.

Continued

SAN RAMON VALLEY SCHOOL AGE CHILD CARE ALLIANCE, INC.
dba KIDS' COUNTRY

NOTES TO FINANCIAL STATEMENTS

June 30, 2013 and 2012

1. Summary of Significant Accounting Policies, continued

Revenue Recognition

Kids' Country receives substantially all of its revenue from program service fees. The revenue from rendering these services is recognized when services have been provided. Kids' Country provides financial aid (scholarships) to qualified students. Total revenues were reported net of scholarships granted to individual students of \$48,850 and \$44,596 for the years ended June 30, 2013 and 2012, respectively. Kids' Country bills one month in advance for childcare services. Payment must be received prior to the first day of the month in order to receive care. Accounts receivable are recorded when students are billed. The amounts related to the billings of the upcoming childcare services are recorded as accounts receivable and deferred revenue.

Advertising and Promotion

Advertising costs are charged to expense as incurred. Advertising expenses were \$16,707 and \$1,156 for the years ended June 30, 2013 and 2012, respectively.

Functional Expense Classifications

Kids' Country's operating expenses are classified between school year programs, summer programs, and general and administrative activities based on employee ratios and other estimates made by management.

Use of Estimates

The preparation of financial statements in conformity with U.S. generally accepted accounting principles requires management to make estimates and assumptions. These estimates and assumptions affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Income Taxes

Kids' Country is exempt from Federal income taxes under Section 501(c)(3) of the Internal Revenue Code. Kids' Country is also exempt from California franchise taxes under Section 23701(d) of the Revenue and Taxation Code and, therefore, has made no provision for Federal or California income taxes. In addition, Kids' Country has been determined by the Internal Revenue Service not to be a "private foundation" within the meaning of Section 501(a) of the Code. Kids' Country follows accounting guidance for uncertain tax positions. In management's opinion there are no uncertain tax positions for the years ended June 30, 2013 and 2012.

Fair Value of Financial Instruments

The carrying value of certain financial instruments (accounts receivable and accounts payable) approximates their fair values because they are short-term in nature or they are receivable or payable on demand.

Continued

SAN RAMON VALLEY SCHOOL AGE CHILD CARE ALLIANCE, INC.
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NOTES TO FINANCIAL STATEMENTS

June 30, 2013 and 2012

2. Concentrations of Credit Risk

Kids' Country maintains accounts at two financial institutions that are insured by the Federal Deposit Insurance Corporation up to \$250,000. Such accounts may, at times, be in excess of insured amounts. Kids' Country has not experienced any loss in such accounts and believes it is not exposed to any significant credit risk on its cash balances.

All of Kids' Country's programs (except Camp Getaway residential summer sessions) reside at locations subject to lease agreements with the San Ramon Valley Unified School District. The leases are land leases upon which Kids' Country's facilities were placed or built, with the exception of Coyote Creek, Quail Run, and Creekside, which are leases of building facilities. Consequently, a concentration of risk exists with regard to future revenue to the extent that San Ramon Valley Unified School District leases virtually all Kids' Country's locations of operations.

3. Accounts Receivable

Accounts receivable consisted of the following as of June 30:

	2013	2012
Pre-billed tuition fees receivable	\$ 78,185	\$ 73,197
Less allowance for doubtful accounts	(2,974)	(3,207)
Accounts receivable, net	\$ 75,211	\$ 69,990

Activities in the allowance for doubtful accounts for the years ended June 30, 2013 was as follows:

Beginning balance	\$ 3,207
Charge-offs	(233)
Ending balance	\$ 2,974

4. Prepaid Expenses

Prepaid expenses consisted of the following as of June 30:

	2013	2012
Prepaid camp expenses	\$ 42,202	\$ 19,689
Prepaid insurance	16,863	5,000
Prepaid technology	1,160	10,908
Prepaid other expenses	16,441	8,884
Total	\$ 76,666	\$ 44,481

Continued

SAN RAMON VALLEY SCHOOL AGE CHILD CARE ALLIANCE, INC.
dba KIDS' COUNTRY

NOTES TO FINANCIAL STATEMENTS

June 30, 2013 and 2012

5. Promise to Give

Kids' Country received a non-cash promise to give of free rent through the use of a long lived asset (Site leases). Under the guidance of Accounting Standards Codification 958, *Not-for-Profit Entities*, Kids' Country determined the value of the promise to give free rent through independent appraisers. Discounting the remaining market rate payments of \$206,634 at a rate of 9%, Kids' Country determined the present value of the lease interest to be \$1,496,714 and \$1,564,112, which is held as temporarily restricted net assets, at June 30, 2013 and 2012, respectively. The annual rent expense is included in the statements of activities and changes in net assets. Net assets of \$206,634 were released from donor restrictions by the passage of time during the years ended June 30, 2013 and 2012.

As of June 30, 2013 and 2012, the balance on this promise to give is as follows:

Year ending June 30:		
2014	\$	206,634
2015		206,634
2016		206,634
2017		206,634
2018		206,634
Thereafter		<u>1,446,445</u>
		2,479,615
Less discount to present value (9%)		<u>(982,901)</u>
		<u><u>\$ 1,496,714</u></u>

6. Property and Equipment

Following is a summary of property and equipment as of June 30:

	2013	2012
Leasehold improvements	\$ 213,982	\$ 213,111
Furniture and fixtures	599,197	595,725
Computers, systems, and peripherals	265,819	280,542
Vehicles	210,225	210,225
Software	47,073	47,073
Buildings	<u>5,740,879</u>	<u>5,681,598</u>
Total	7,077,175	7,028,274
Less accumulated depreciation and amortization	<u>(3,845,991)</u>	<u>(3,540,373)</u>
Property and equipment, net	<u><u>\$ 3,231,184</u></u>	<u><u>\$ 3,487,901</u></u>

Total depreciation and amortization expense was \$335,140 and \$401,714 for the years ended June 30, 2013 and 2012, respectively.

Continued

SAN RAMON VALLEY SCHOOL AGE CHILD CARE ALLIANCE, INC.
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NOTES TO FINANCIAL STATEMENTS

June 30, 2013 and 2012

7. Other Assets

Other assets consisted of the following as of June 30:

	2013	2012
Deposit on administrative office	\$ 7,760	\$ 7,760
Sculpture	2,397	2,397
Other	139	2,639
Total	\$ 10,296	\$ 12,796

8. Long-Term Debt

Kids' Country has a note payable with Heritage Bank. The interest rate for this loan is a fixed rate of 6.9%. Interest and nominal principal amounts are due monthly. The note is collateralized by all inventory, accounts, equipment, general intangibles, and deposits of Kids' Country. Final principal payments on the note are due December 7, 2014.

Kids' Country has a secured line of credit of \$350,000. The interest is a variable rate of the Prime Rate Index plus 1%, or 5.5%, whichever is higher. The interest rate as of June 30, 2013 was 5.5%. The line had no outstanding balance at June 30, 2013 or 2012. The line of credit is collateralized by all inventory, chattel paper, accounts, equipment, general intangibles, and deposits of Kids' Country.

Aggregate principal maturities of note payable are as follows:

Year ending June 30:	
2014	\$ 110,698
2015	56,163
	\$ 166,861

9. Accrued Expenses

Accrued expenses consisted of the following as of June 30:

	2013	2012
Accrued compensated absences	\$ 235,692	\$ 235,345
Accrued salaries and payroll taxes	187,463	156,952
Accrued 403(b) retirement plan contribution	23,890	17,867
Total	\$ 447,045	\$ 410,164

Continued

SAN RAMON VALLEY SCHOOL AGE CHILD CARE ALLIANCE, INC.
dba KIDS' COUNTRY

NOTES TO FINANCIAL STATEMENTS

June 30, 2013 and 2012

10. Retirement Plan

Kids' Country has a contributory defined contribution retirement plan (the Plan) under Section 403(b) of the Internal Revenue Code. The Plan covers substantially all employees, and provides for voluntary salary deferrals up to certain defined amounts. The Board of Directors is responsible for approving an annual contribution at its discretion based on the solvency of Kids' Country on behalf of each eligible participant. Contributions of \$41,099 and \$39,842 were approved and expensed for the years ended June 30, 2013 and 2012, respectively.

11. Commitments and Contingencies

Lease Commitments

The future minimum lease payments under all non-cancelable leases are as follows:

	Administrative Offices ¹	Day Care Facilities ²	Auto
For the years ended June 30:			
2014	\$ 152,710	\$ 118,188	\$ 7,300
2015	152,710	26,706	608
2016	38,177	2,254	-
Total	\$ 343,597	\$ 147,148	\$ 7,908

¹ The lease for Kids' Country's administrative offices will expire on September 30, 2015 and states that rent shall be increased by the Consumer Price Index.

² Kid's Country is also a party to a lease agreement with the SRVUSD for the use of facilities where it conducts its extended daycare activities. This transaction is part of the amended master lease agreement; however, these leases have the option to renew or cancel annually. The master lease agreement also states that the rent shall be increased annually by the Consumer Price Index (CPI).

Rental expense for Administrative and Day Care Facilities was \$300,167 and \$303,434 for the years ended June 30, 2013 and 2012, respectively. In-kind rental expense for sites leases was \$206,634 for the years ended June 30, 2013 and 2012.

Legal Proceedings

Kids' Country is from time to time engaged in litigation. It is Kids' Country's policy to vigorously defend all lawsuits. While the final outcome of these cases cannot be determined at this time, management is of the opinion that the ultimate liability, if any, from the final resolution of these matters will not have a material effect on the Kids' Country financial statements. In addition, insurance coverage is maintained to cover the organization in the event they do not succeed in defending their position.

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SAN RAMON VALLEY SCHOOL AGE CHILD CARE ALLIANCE, INC.
dba KIDS' COUNTRY

NOTES TO FINANCIAL STATEMENTS

June 30, 2013 and 2012

12. Related Party Transactions

One member of the Kids' Country Board of Directors also sits on the Advisory Board of a bank, at which Kids' Country has a note payable, checking, and savings accounts.

13. Subsequent Events

Subsequent to June 30, 2013, Kids' Country entered into a lease agreement for the new Performing Arts Center, in Danville California. The 99 year lease will commence on November 16, 2013, and provides for \$1 a month rent, in which Kids' Country will establish a non-cash promise to give free rent receivable for the present value of the term of the lease.

Additionally, subsequent to June 30, 2013, Kids' Country paid off the entire remaining balance of the outstanding note payable discussed in Note 8.

Other than the events above, management has evaluated subsequent events for recognition and disclosure through November 19, 2013, the date which these financial statements were issued. Management concluded that no other material subsequent events have occurred since June 30, 2013 that required recognition or disclosure in the financial statements.